

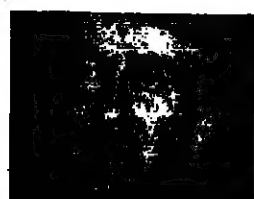
# FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

MONDAY MARCH 16 1998



**Corporate universities**  
Working more closely  
with business schools  
Inside Track, Page 12



**Prosecuting tyrants**  
How to create a  
world criminal court  
Page 16



**Environmental taxes**  
A good tool but  
not green magic  
Page 17

**Survey**  
Pharmaceuticals: to  
merge or not to merge?  
Separate section

## WORLD NEWS

### Indian president calls on BJP's leader to form coalition government

Atal Behari Vajpayee, veteran leader of India's Bharatiya Janata party, was asked to form a BJP-led coalition government. The request to the Hindu nationalist from President K.R. Narayanan ended political haggling following the indecisive outcome of last month's elections. Page 18; PM in waiting, Page 5

**Austria stays out of Nato**  
Austria's governing Social Democratic party ruled out membership of Nato for the foreseeable future but will push for close co-operation with the western defence alliance. Page 3

**Left conflict in French poll**  
Computer projections of the result of France's regional elections supported the Socialist-led ruling coalition's confidence of success. Page 2

**Blair strengthens Ulster peace role**  
UK prime minister Tony Blair is set to take an increased personal role in the Northern Ireland peace process as negotiations enter their final stages. Page 7

**Israel warns Cook**  
Israel said a planned visit by UK foreign secretary Robin Cook to a Jewish settlement at Har Homa in east Jerusalem was unacceptable. Mr Cook insisted the visit would go ahead. Page 4

**Hassan appoints opposition**  
King Hassan of Morocco appointed the first opposition-led government since the country's independence. Page 4

**Amazon firefighters seek help**  
Firefighters in Brazil's northern Amazon appealed for reinforcements in their battle against huge farmland fires. Page 6

**Thatcher to visit Chechnya**  
Chechen president Aslan Maskhadov said former British prime minister Baroness Thatcher would head a fact-finding mission to the separatist Russian region.

**SBC rescues mutuality**  
The SBC is rescuing a suggestion that it should become a mutually-owned organisation, allowing its 21m licence fee payers a vote on its board of governors. Page 7

**Ex-minister found dead**  
The body of Hugh Coveney, 62, a former Irish Minister for Defence, was recovered from the sea off Cork. He had set off for a cliff walk with his three dogs.

**Basque peace hopes slim**  
Efforts to prepare for a peace process in Spain's Basque region are hampered by sharp differences between political parties. Page 3

**Cyprus row settled**  
The European Union defused a row between France and Greece over Cyprus, allowing negotiations on EU enlargement to start this month. Page 2

**Earthquake kills five**  
Five people were killed and 60 injured when a powerful earthquake, measuring 6.4 on the Richter scale, hit south-east Iran.

**Strike threat at Iberia**  
Pilots of Iberia, Spain's national airline, announced strike action which could undermine government plans to privatise the carrier. Page 3

**24 Kurdish rebels killed**  
Turkey said security forces had killed 24 Kurdish rebels in clashes in the country's south-east.

**Protest against Belarus leader**  
About 4,000 people marched in Minsk in protest against sweeping powers awarded to Belarus president Alexander Lukashenko.

**Bulgarian bishop beatified**  
Bulgarian bishop Vincentius Bosilkov, tortured and executed in 1952, was beatified by the Pope, the first martyr of Stalinism so honoured.

## BUSINESS NEWS

### US stocks may not be overvalued, says Buffett in annual address

Stocks should not be viewed as overvalued as long as US companies continue to achieve strong return on equity and stable interest rates are maintained, said Warren Buffett, the US investor known as the Sage of Omaha, in his annual letter to shareholders in Berkshire Hathaway, the investment company. Page 18; Markets Week, Page 24

**Britain to lodge a formal complaint**  
to the European Commission about large state subsidies paid to the German coal industry. Page 2

**Roche, Swiss pharmaceutical group**, suffered a fresh setback in its bid to market Xenical, its anti-obesity drug, when US experts changed their views about whether it increased the risk of breast cancer. Page 19

**France has been told to strengthen** legislation safeguarding the independence of the national central bank or risk not qualifying for economic and monetary union. Page 2

**Leveraged buy-outs in Europe** reached record levels in the past six months, leaving international banks struggling to absorb a mountain of acquisition debt. Page 19

**Stora, the Swedish forestry group**, is to launch an efficiency drive to help double profits in the next two to three years. Page 21

**Heineken, the world's second-largest** brewer, saw its shares surge 7.7 per cent on Friday as it served shareholders a scrip issue and stock split along with an unexpectedly healthy rise in annual profits. Page 22

**Alkerm, one of Turkey's largest** banks, plans to raise some \$120m by selling about 3.5 per cent of its equity to foreign investors. Page 22

**Yesterday Ryutaro Hashimoto**, the Japanese prime minister, urged him to take "courageous decisions" to reform his country's crisis-hit economy.

**Mr Hashimoto emerged from** more than two hours of "candid" talks with the Indonesian president, expressing deep concern about the economic difficulties facing the country and calling on Mr Suharto to stand by his agreements, including his deal with the IMF.

**Officials from the fund arrived** in Jakarta over the weekend for continuing talks on implementing the reform programme agreed in exchange for a \$400m financial rescue package.

**But the drastic shake-up of the** cabinet is likely to undermine the IMF's efforts to ensure that the reform package agreed in January is put in place. The fund

**must decide whether to release a** second \$30m tranche and open the way for further help from the World Bank, Asian Development Bank and donor nations.

**Mr Suharto on Saturday** appointed his daughter Siti Hardiyanti Rukmana as social affairs minister and handed the ministry of trade and industry to Bob Hasan, his business associate and golf partner.

**Mrs Siti runs a sprawling con-**glomerate which had one of its power projects cancelled at the urging of the IMF. It would be likely to lose contracts for other infrastructure projects if new rules to enforce fair public tenders were introduced.

**Mr Hasan runs a timber and** trading empire that was targeted by the IMF for its dominance of the forestry industry.

**The new finance minister**, Fud Bawazir, was previously director-general of the tax service. He is also treasurer of another presidential foundation and a board member of two state banks that lent heavily to Mr Suharto's family businesses.

**In the reshuffle Mr Suharto** gave B.J. Habibie, his controversial new vice-president, unpre-

## EU steps closer to single currency

By Wolfgang Miethaus, Economics Correspondent

The European Union took a critical step towards a single currency this weekend with a surprise revaluation of the Irish punt and the admission of Greece into the Exchange Rate Mechanism.

Dominique Strauss-Kahn, French finance minister, said yesterday: "Europe is now ready for the euro."

The 3 per cent realignment of the Irish punt - agreed by EU finance officials in Brussels on Saturday - was intended to iron out the remaining distortions in Europe's currency grid before countries fix their bilateral conversion rates in May.

The timing of the drachma's entry into the currency grid also came as a surprise. The Greek government has chosen the time

### Greece enters ERM and Ireland revalues punt before member states fix conversion rates

- a few days ahead of the informal meeting of EU finance ministers in York, northern England - to set a clear political signal of its intention to join Emu on January 1 2001.

The weekend decisions leave ministers in a strong position to make the current central rates in the ERM the bilateral conversion rates under a single currency. This decision is due to be taken at a special summit in Brussels on May 1-3.

Charlie McCreevy, the Irish finance minister, said the decision to revalue was not prompted by the drachma's ERM entry.

The revaluation will help Ireland bring its short-term inter-

est rates down toward the European average earlier than would otherwise have been the case.

The Irish short-term rate is 6.75 per cent, more than 2 percentage points above German and French rates. Since European economic and monetary union constitutes a single monetary regime, the interest rates of the member countries must converge by the end of this year.

The revaluation brings the central rate of the punt from DM2.41 to DM2.48, close to its current trading levels.

The Greek drachma entered the currency grid at a central parity of Dr367 against the Euro, the basket of EU currencies. The

drachma's central rate is around 10 per cent below the rate at which the currency closed on Friday in London trading.

The decision paves the way for Greek membership of Emu on January 1 2001, two years after the start of the first wave, but probably ahead of the UK, Sweden and Denmark.

The Greek government expects to meet all qualifying conditions for Emu by the end of 1999, leaving another year to prove that its performance is sustainable.

Greek inflation - once in double digits - reached a low of 4.3 per cent in February. Economists fear, however, that the devaluation could lead to a short term

rise in inflation because of higher import prices.

The UK and Sweden are now the only EU member countries outside the ERM, which allows currencies to fluctuate by 15 per cent on each side of a central rate. The UK and Swedish governments oppose entry into the grid on political grounds, a position that is now almost certain to lead to a policy clash with the Emu group, once Britain and Sweden decide to join the single currency.

The Maastricht Treaty, which lays out criteria for joining the currency, stipulates two years of ERM membership as a precondition for membership of monetary union.

Reports, Page 2  
Editorial Comment, Page 17  
Lex, Page 18  
Global Investor, Page 19

## Suharto's cabinet choice ignores pleas for reform

By Sander Thomas in Jakarta

President Suharto of Indonesia appointed his eldest daughter, his golfing partner and top officials linked to family business interests to a new cabinet at the weekend, ignoring urgent calls for reform from world leaders and the International Monetary Fund.

Yesterday Ryutaro Hashimoto, the Japanese prime minister, urged him to take "courageous decisions" to reform his country's crisis-hit economy.

Mr Hashimoto emerged from more than two hours of "candid" talks with the Indonesian president, expressing deep concern about the economic difficulties facing the country and calling on Mr Suharto to stand by his agreements, including his deal with the IMF.

Officials from the fund arrived in Jakarta over the weekend for continuing talks on implementing the reform programme agreed in exchange for a \$400m financial rescue package.

But the drastic shake-up of the cabinet is likely to undermine the IMF's efforts to ensure that the reform package agreed in January is put in place. The fund

must decide whether to release a second \$30m tranche and open the way for further help from the World Bank, Asian Development Bank and donor nations.

Mr Suharto on Saturday appointed his daughter Siti Hardiyanti Rukmana as social affairs minister and handed the ministry of trade and industry to Bob Hasan, his business associate and golf partner.

Mrs Siti runs a sprawling conglomerate which had one of its power projects cancelled at the urging of the IMF. It would be likely to lose contracts for other infrastructure projects if new rules to enforce fair public tenders were introduced.

Mr Hasan runs a timber and trading empire that was targeted by the IMF for its dominance of the forestry industry.

The new finance minister, Fud Bawazir, was previously director-general of the tax service. He is also treasurer of another presidential foundation and a board member of two state banks that lent heavily to Mr Suharto's family businesses.

In the reshuffle Mr Suharto gave B.J. Habibie, his controversial new vice-president, unpre-



President Suharto greets Mr Hashimoto at the presidential residence in Jakarta. Picture Reuters

cedented influence in foreign affairs. He has been put in charge of relations with multilateral organisations such as the Association of South East Asian Nations and Asia Pacific Economic Co-operation.

Ginjar Kartasasmita, the chairman of the National Development Planning Agency and a

long-standing opponent of market liberalisation, was also made co-ordinating minister for economy, finance and development.

However, these appointments overshadow others that may please the IMF and foreign investors.

Tanri Abeng, a respected business executive, is to head a new ministry for restructuring

and privatising state enterprises; Ali Alatas, popular with diplomats, receives a third term as foreign minister; and General Wiranto, a well-liked chief of the armed forces, is appointed minister of defence.

Mahathir names adviser, Page 5  
Lex, Page 18

## Investors bet on 'millennium fly'

By Simon Davies, Capital Markets Editor

US hedge funds have taken substantial bets in the financial markets that the millennium bomb will paralyse the banking system on January 1 2000, forcing interest rates higher.

Futures brokers said there had been heavy selling of December 1999 futures contracts in US and German interest rates, in a financial transaction nicknamed the millennium fly. A trader in New York said more than \$5bn of contracts had been sold.

These investors believe that computer problems will cause significant financial disruption, driving up bond short-term interest rates. This would substantially reduce the value of any interest rate contracts that straddle the beginning of 2000.

The millennium bomb has arisen because many computers will be unable to recognise the year 2000. This could disable programs after midnight on December 31 1999. So far, the millennium bomb has had a limited impact on financial markets. It has driven up the price of some information technology stocks, owing to consultancy fees that could come from sorting out computing problems.

The millennium fly is a so-called butterfly spread, where the investor sells December 1999 contracts, and buys September 1999 and March 2000 contracts.

This would be highly profitable if short-term interest rates rise sharply between December 1999 and March 2000, when the 3-month interest rate agreement expires. The activity has all been concentrated in Eurodollar and Eurodollar contracts, which are based on US and German interest rates. However, brokers suggested that investors might take positions in bond futures also.

One trader said: "In December 1999, money could become very expensive. People will be out paying for the millennium, computers could be breaking down, and so there could be a scramble for cash. This would be made worse if the bomb has a broader economic impact."

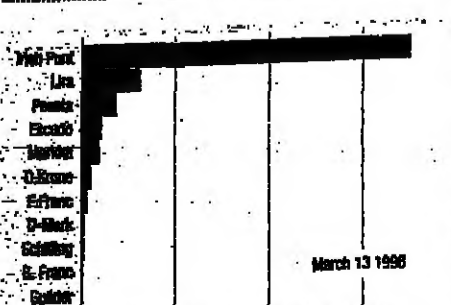
Other investors suggested that the hedge funds were scrambling in the hope of making a very short-term profit.

Thomas Jutzbach, head of US and European government bond trading at Morgan Stanley, said: "It is very hard to discount events that far out. Besides, the market probably hasn't thought enough about what the Central Bank response to this will be, which will be to provide liquidity in a time of uncertainty."

He said that there would probably be an additional bank holiday over the millennium period, providing more time to resolve any difficulties.

Millennium 'bomb' classes, Page 7

## EMS: GRID



Currencies, Page 25

© THE FINANCIAL TIMES LIMITED 1998 No.33,549

London • Leeds • Paris • Frankfurt • Stockholm • Milan • Madrid • New York

Los Angeles • Tokyo • Hong Kong

|            | Index  | Value  | Change | Value  | Change |
|------------|--------|--------|--------|--------|--------|
| DAX        | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSE 100   | 4,000  | 4,000  | 0.00   | 4,000  | 0.00   |
| Nikkei 225 | 15,000 | 15,000 | 0.00   | 15,000 | 0.00   |
| Hong Kong  | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| Shanghai   | 1,000  | 1,000  | 0.00   | 1,000  | 0.00   |
| Hang Seng  | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| ASX 200    | 1,000  | 1,000  | 0.00   | 1,000  | 0.00   |
| IBEX 35    | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEMIB    | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEMEX    | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEJAP    | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEUK     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEUS     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEBR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEFR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEIT     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEES     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEPT     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEGR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSETR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSECH     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSESE     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSENL     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEBE     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSELU     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEPT     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEGR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSETR     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSECH     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSESE     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSENL     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSEBE     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |
| FTSELU     | 10,000 | 10,000 | 0.00   | 10,000 | 0.00   |

## CONTENTS

World News 2-6 UK News 7  
Features 10-14 Comment & Analysis 16,17  
Companies & Finance 20-23 World Stock Markets 26,27,31-33  
Full contents and Lex: back page



**By Andrew Taylor,  
Utilities Correspondent**

Mr Battie said: "The UK government is anxious that the commission reaches an early legal decision on these matters to provide a clear framework for a level playing field."

**By Lionel Barber and  
David Buchan in Edinburgh**

The row - between France and Greece - centred on whether to pursue talks on membership with Cyprus in the absence of a political settlement between Greeks and Turks on the divided island. A compromise reached at a meeting of EU foreign min-

Robin Cook, UK foreign secretary who chaired the meeting, said the Union was now ready to take the "his-

During the meeting, Hubert Vedrine, French foreign minister, pressed hard for tough language warning that the EU negotiations with Cyprus could be suspended without progress on a political settlement.

The 1995 deal involved Cyprus receiving a chance to join the EU. In return, Greece was to lift its veto on a EU-Turkey customs union. Athens did so, but then blocked an accompanying Ecu375m (\$416m) financial

ment. But Greece had to accept that the European Commission will make regular reports to ministers on all six accession negotiations - an implicit threat that the Cyprus talks could be suspended.

Mr Cook said that the opening of accession negotia-

Jacques Santer, president of the European Commission, said the first phase of accession negotiations would involve "screening" the degree to which Cyprus had adopted EU legislation. This would apply not only to the Greek Cypriot south of the

Letting EU officials inspect his books would implicate him in the enlargement process, but barring access would increase the impression in Europe that he is the biggest obstacle to settlement.

**By Robert Graham in Paris**

The exit polls indicated the coalition parties had won five regions outright, whereas the rightwing opposition parties were only assured of clear victories in three regions. After the 1992 regional election, the right controlled 20 of the 22 home regions.

The main rightwing parties failed to demonstrate during the campaign they

The campaign itself excited little public enthusiasm. The regions have only existed since 1982 as administrative entities and have relatively small budgets compared with the municipalities and departments with which voters identify much more. Early reports from the polling stations showed the abstention rate likely to be higher than 31 per cent recorded at the previous regional elections.



## DRACHMA DEVALUED REFORM TIED TO ERM BID

## By Lionel Barber in Brussels

The twin reports will assess the degree to which

after the French regional elections, the first round

ready for the euro. "This is not fudgeable. It is a serious

**Emu.**  
Some French ministers are

pendent European Central Bank in Frankfurt.

**Greece's Socialist government yesterday announced cuts in public spending and a speed-up of privatisation, in a reform package tied to the**

The spending cuts, equal to about one percentage point of gross domestic product, would ensure that Greece can meet this year's budget deficit target of 2.4 per cent of GDP and reduce the deficit to 2.1 per cent o

Mr Papantoniou said the government intended to maintain its restrictive wages policy and would appeal to private sector employers not to exceed this year's 2.5 per cent ceiling on increases for public sector workers.

The reform package and devaluation came under attack yesterday from Greece's Confederation of Trade Unions, which demanded adjustments in the collective wage agreement currently under

**'It was a correct political choice.**

## Joining the ERM should give Greece a bit more

**credibility with the  
markets'**

of privatisation may also bring confrontations with unions at state enterprises slated for disposal.

The reforms would not include job cuts, but transfers and early retirements of workers at state enterprises would be stepped up, Mr Papantoniou said.

The privatisation law is being revised to permit 100 per cent of equity in state-controlled banks and 49 per cent of state utilities to be sold through the Athens stock exchange. Three banks and 10 profitable state enterprises are to be disposed of this year.

A third tranche of OTE, the partly privatised state telecoms operator, amounting to 15-20 per cent, will be offered for sale this year.

"The main worry will be the pace at which we can implement public sector reforms," Mr Papantoniou said.

"This doesn't just depend on the economy ministry, but needs a concerted effort at several levels of government."

## Irish 'judgment call' on revaluation

**By John Murray Brown  
in Dublin**

Mr McCreevy was yesterday adamant that the decision was taken at Ireland's

With the economy growing at 8 per cent, with the budget showing a surplus for the first time, a case for a revaluation of the currency

any threat to our economic stability. I have therefore decided that the most prudent course of action is to bring the central rate of the Irish pound broadly into line with its recent market rate."

**Against the inflation fears,** Mr McCreevy had to balance the advice of the export lobby which argued Irish business could be exposed to a future sterling devaluation if it was to lock into Emu at

Mr McCreevy described it as "a judgment call". It represents a brave decision for a coalition government which after the loss of two by elections last week has a

Analysts welcomed both the adjustment in the drachma's value and the government's decision that it should join the ERM months earlier than the date

**Greece a bit more credibility with the markets'**

| ERM central exchange rates                         |               |               |               |                |               |                     |             |             |               |               |                  |              |
|--|---------------|---------------|---------------|----------------|---------------|---------------------|-------------|-------------|---------------|---------------|------------------|--------------|
| Uniform central rates effective from March 16 1998 |               |               |               |                |               |                     |             |             |               |               |                  |              |
| Currency   | 100<br>Bf/Lfr | 100<br>D/Marc | 100<br>D-Mark | 100<br>Dracmas | 100<br>Peseta | 100<br>French franc | 1<br>Mk/Pst | 100<br>Lira | 100<br>Galles | 100<br>Escudo | 100<br>Schilling | 100<br>Marka |
| Belgian franc/Lfr                                  | 100.00        | 540.723       | 2082.59       | 11.4542        | 24.2447       | 614.877             | 81.2210     | 20.8338     | 1680.56       | 20.2114       | 203.192          | 676.496      |
| Darden franc                                       | 58.4936       | 100.00        | 391.448       | 2.11276        | 4.43378       | 113.752             | 9.47286     | 3.89286     | 326.337       | 3.7272        | 64.2167          | 125.494      |
| D-Mark   | 4.83537       | 20.2123       | 100.00        | 4.93606        | 1.17647       | 23.8184             | 2.48336     | 1.9361      | 66.7617       | 0.975599      | 14.2338          | 32.8937      |
| Dracmas  | 375.335       | 4726.13       | 14894.2       | 100.00         | 212.222       | 6363.11             | 446.236     | 162.265     | 10023.4       | 176.329       | 2895.15          | 5088.86      |
| Peseta   | 412.462       | 5226.27       | 8807.32       | 47.2204        | 100.00        | 2088.54             | 211.267     | 86.9313     | 7086.3        | 82.6628       | 1708.18          | 2706.42      |
| French franc                                       | 16.2808       | 87.5657       | 336.339       | 1.86768        | 3.94337       | 100.00              | 8.26983     | 3.26773     | 267.861       | 3.27188       | 67.8704          | 110.324      |
| Mk/Pst   | 1.86232       | 16.0667       | 40.2678       | 0.223936       | 0.433338      | 12.6963             | 1.0000      | 0.469493    | 36.7392       | 0.266394      | 3.72947          | 12.2498      |
| Lira   | 4793.50       | 23954.2       | 89960.2       | 548.36         | 1463.72       | 33616.3             | 2496.88     | 1920.00     | 87894.4       | 865.806       | 14071.5          | 23268.1      |
| Schiler  | 5.68686       | 29.6386       | 112.474       | 6.80467        | 1.32445       | 33.8684             | 2.78612     | 1.13912     | 100.00        | 1.1688        | 18.655           | 22.0697      |
| Escudo   | 466.984       | 2897.31       | 10590.5       | 58.7705        | 120.487       | 3068.34             | 254.86      | 103.541     | 8067.86       | 100.00        | 1466.67          | 3371.80      |
| Schilling  | 34.1108       | 186.466       | 703.562       | 3.00065        | 6.27006       | 208.774             | 17.4719     | 7.10637     | 626.415       | 0.82667       | 100.00           | 251.491      |
| Marka  | 14.7301       | 79.6678       | 304.001       | 1.80382        | 3.52545       | 36.4842             | 7.84891     | 3.07071     | 269.306       | 2.36571       | 43.3384          | 100.00       |

Most of the companies are committed to the goal of an 11% share of sales from recycled paper. The companies are the D. J. Mearns and the Colgate, which have a 2.2% goal.

**FINANCIAL TIMES**  
 Publisher: **John Birt**, *Financial Times (Europe)*  
 GmbH, Nollendorfplatz 3, 10115 Berlin  
 Unter den Eichen, 10115 Berlin, Germany. Telephone +49  
 30 156 150. Fax +49 30 156 150 200.  
 Managing Director: **John Birt**, *Financial Times*  
 Ltd, 1, Abchurch Lane, London, EC4N 3DF, UK.  
 Chairman: **William J. Bristol**, *Colin A. Kennard* as  
 Chairpersons and in London by **Davide**  
**Verlaghe**, *Financial Times* NV, 1000  
 Brussels, Belgium, and **Allen C. Meyer**,  
 Deputy Chairman. The shareholder of the  
 Financial Times (Europe) GmbH is **Financial**  
**Times Ltd**, 1, Abchurch Lane, London, EC4N  
 3DF, UK. Registered office: **1000**  
 Gardens, London, W1X 1LE, UK.  
 Shareholders of this company in **Paris** are  
**Financial Times Ltd**, the same address.

**GERMANY**  
 Responsible for Advertising: contact **Colin A.**  
**Kennard**, *Printer: Hinrich International*  
 Verlagsgesellschaft mbH, Postfach 10 15 50,  
 4000 Düsseldorf 1, Germany. Telephone +49  
 211 7363. Fax +49 211 7363 233. *Net Imprint* (Sonder-  
 Druck) 7363. Responsible Editor: **Rudolf**  
**Landers**, *co The Financial Times Limited*  
 1000 Gardens, London, W1X 1LE, UK.  
 Tel 991L.

**FRANCE**  
 Publishing Director: **P. Maravall**, 42 rue  
 La Boétie, 75008 PARIS, France. Tel 01  
 576 8284. Fax 01 576 8253. *Printer*  
 S.A. Nord Edit, 1521 Rue de Caen  
 F-91010 Rodanville Cedex 1, Editor: **Rudolf**  
**Landers**, *co The Financial Times Limited*  
 1000 Gardens, London, W1X 1LE, UK.  
 Tel 991L. Fax 01 576 8253. *Commissionaire*  
 Nord Edit 01 576803.

**SWEDEN**  
 Responsible Publisher: **Hugh Carrigan** 466  
 118 0018. *Printer* AB Kallingshagens  
 Tryckeri AB, Box 6007, S-550 06  
 Jönköping.

© The Financial Times Limited 1998  
 Editor: **Rudolf Landers**, *co The Financial*  
*Times Limited*, *London*, *One Southwark*  
*Road, London SE1 9YL.*



SPANISH SEPARATISM DIVISIONS OVER NEW INITIATIVE AS MADRID REJECTS TALKS WITH POLITICAL WING OF ETA

# Cracks in Basque peace efforts

By David White in Madrid

Efforts to prepare the way for a peace process in Spain's Basque region are set for an unpromising start this week, with sharp differences between political parties on the scope of any negotiations.

A meeting of non-extremist parties in the region tomorrow is due to discuss proposals by José Antonio Ardanza, the Basque president. The latest fine-tuned text of his plan was sent to parties last week. It rules out direct political talks with Eta, the outlawed organisation which has killed almost 800 people in the last 30 years.

It also sets an indefinite "cessation of hostilities" by

the terrorists as a precondition for peace talks, which would be held with Eta's political arm, Herri Batasuna.

More controversially, it stipulates that there should be no limits for the talks, and that any agreement reached by party leaders in the region should be accepted by the Madrid government.

The Basque Nationalist party (PNV), which heads the regional government, can count on support for the plan from other regionally-based parties as well as the Communist-led United Left.

But the proposals risk driving a wedge between them and the two main national parties, Spain's governing centre-right Popular

party and its Socialist opposition. The Madrid government rejects the idea of a negotiated end to violence in current circumstances as "political fiction". It opposes talks with Herri Batasuna, saying the organisation is incapable of breaking its links with Eta.

The Socialists, part of a PNV-led coalition in the Basque region, are more sympathetic but have reservations about the details of the plan and its timing, with Basque regional elections looming in October.

The Socialists and the PNV have warned of the risk that tomorrow's meeting might open a damaging public breach in the common front which moderate parties have tried to maintain



Ardanza: last bid effort

against terrorist violence.

The PNV has attempted at the last minute to calm fears that the "no limits" plan might call into question the terms of Spain's constitution

and the region's 1979 home-rule statute. Mr Ardanza is launching the initiative as a last bid to get a peace process under way before he steps down in October after 18 years as regional president.

Tomorrow's meeting is billed as starting a "second phase" of a 10-year-old pact between parties in the region to work together to try to end violence. Mr Ardanza, who believes Eta might be ready to call a ceasefire, is disappointed by Spain's failure in recent years to build a consensus similar to that of the main UK parties on the Northern Ireland peace process.

He is hopeful that his approach will be accepted by Herri Batasuna.

## Austria to rule out Nato entry

By Eric Frey in Vienna

Austria's governing Social Democratic party has ruled out membership of Nato for the foreseeable future but will push for close co-operation with the western defence alliance and for a strengthening of a European security policy within the European Union.

"A European foreign and security policy is our central aim," said Viktor Klima, Austria's chancellor and the party chairman. "Joining the Atlantic military pact would fall short of that goal and can therefore not be recommended." A government report on the decision, made last week, will be published later this month.

The coalition partner, the conservative People's party, reacted angrily and threatened to boycott the planned joint paper. "There has to be a clear signal towards the West European Union [the European Union's fledgling defence arm] and Nato," said Werner Fasslabend, defence minister. "Without it, there is no use in having a report at all."

The People's party has pushed strongly for Nato membership over the past two years. Its chairman, Wolfgang Schüssel, foreign minister, argued that Austria's traditional policy of neutrality had lost its purpose with the end of the cold war and the forthcoming entry of former East European countries into Nato.

When Hungary, Poland and the Czech Republic become full Nato members next year, Austria will be surrounded on three sides by the alliance, Mr Schüssel said. Staying out of Nato might be the slightly cheaper option, but would make the country a free rider in security.

The government report is, however, expected to move Austria's defence policy away from neutrality towards closer co-operation with European security institutions.

## NEWS DIGEST

## PILOTS' THREAT

## Iberia strike action could hit privatisation plans

The pilots of Iberia, Spain's national airline, have announced strike action which could undermine government plans to privatise the carrier and sell minority stakes to British Airways and American Airlines.

Sepia, the union representing the carrier's 1,800 pilots, said its members would strike for 30 days between March 27 and July 31. The strike days are concentrated on Fridays, Mondays and public holidays and will consist of six-hour stoppages starting at 8am and 4pm that will in effect ground the airline.

The dispute centres on management plans to hire aircraft and crews from a rival airline, Air Europa, to boost productivity on Iberia's international and domestic routes. Iberia reached a commercial agreement with Air Europa in January to hire 20 of its rival's aircraft and 150 of its pilots. The step was an interim measure to meet increasing passenger demand.

Sepia claims the management wants to peg the salary levels of its members to Air Europa wages. The union said its members earned an average Pta17m-Pta18m (\$113,000-\$120,000) a year. Iberia management says the average salary of its pilot wages is Pta24m, while Air Europa's pilots, who fly more hours than Iberia's, earn Pta13m-Pta14m. Iberia's agreement with Air Europa seeks to stem a falling market share on all its routes due to increased competition from other airlines. Tom Burns, Madrid

## SPANISH DEMAND

## '35-hour week by 2000'

Spain's powerful General Workers' Union (UGT) has toughened its campaign for a 35-hour working week, demanding a French-style law to impose the measure in the year 2000.

By setting a deadline for "the beginning of the 21st century" the union body, which is traditionally linked to the Socialist party, has gone further than Spain's other main labour federation, Workers' Commissions. At a congress which ended at the weekend, it set out to work jointly with Workers' Commissions to achieve the reduction, which would be without loss of salary. Spain's Socialists echoed their French counterparts last summer by establishing a 35-hour target in a bid to broaden their support on the left. But they emphasised that the move from 40 hours should be gradual and should not be allowed to damage competitiveness or productivity. Joaquín Almunia, the Socialist leader and former labour minister, opposes enforcing the cut through legislation and favours a negotiated agreement instead. David White, Madrid

## RUSSIAN PRESIDENT

## Yeltsin 'has cold'

Russian President Boris Yeltsin was well enough to eat meals with his family and is suffering from nothing more serious than a common cold, a member of the Yeltsin family said at the weekend.

Mr Yeltsin cancelled his appointments on Friday, suffering from what officials said was an "acute respiratory infection".

The announcement set off fresh worries about his health, an issue which has haunted politics since his heart attack in 1996. Christia Freeland, Moscow

## European car sales increase by 9.2%

By Haig Simonian, Motor Industry Correspondent

A second strong month for new car sales in western Europe has sent many analysts back to their calculators to produce forecasts for the year.

New car registrations last month rose 9.2 per cent, year on year, to 1.135m units. That pushed new car sales in the first two months of 1998 almost 10 per cent above the corresponding period last year, according to preliminary figures from the European Automobile Manufacturers' Association (ACEA).

The unexpectedly buoyant demand may lead to upward revision of the 1.2 per cent consensus forecast for growth in car sales this year. In February, sales rose in 14 of the 17 countries monitored by ACEA.

The ammunition will come from last month's 7.9 per cent rise in Germany - Europe's biggest car market - and the continuing strength of sales in Spain and the UK. Sales in Italy also grew on the back of the government's continuing

incentive programme, while France showed a gradual recovery from last year's weakness after the termination of an incentive scheme.

Roberto Testore, chairman of Fiat Auto, expects western Europe registrations to rise 2 per cent this year to 13.5m units. Although the growth in Italy, last year's single strongest market, will slow as government incentives are reduced, he still expects domestic sales to fall by only about 300,000 units to 2.3m. That is "still well above the generally accepted 'normal' figure of around 2m cars a year", he says.

Louis Schweitzer, the Renault chairman, more cautiously predicts a rise of just 1 per cent for 1998. However, he admits the quality of this year's figures will be higher, as 1998 will be "a real market and not a government-supported one". He expects sales in France to climb by 10 per cent above the depressed level for 1997.

February's sales figures confirmed the strong showing by Japanese and South Korean carmakers already seen the previous month.

## West European new car registrations January-Feb 1997

|                       | Volume (thous)   | Volume Change (%) | Share (%) Jan-Feb 98 | Share (%) Jan-Feb 97 |
|-----------------------|------------------|-------------------|----------------------|----------------------|
| <b>TOTAL MARKET</b>   | <b>2,385,900</b> | <b>+9.8</b>       | <b>100.0</b>         | <b>100.0</b>         |
| <b>MANUFACTURERS:</b> |                  |                   |                      |                      |
| Volkswagen group      | 386,588          | +5.2              | 16.2                 | 17.4                 |
| - Volkswagen          | 231,732          | +0.1              | 9.7                  | 10.6                 |
| - Audi                | 82,072           | +2.3              | 3.4                  | 3.7                  |
| - Seat                | 61,572           | +13.2             | 2.5                  | 2.4                  |
| - Skoda               | 24,133           | +52.9             | 1.0                  | 0.7                  |
| Fiat group            | 307,678          | +12.9             | 12.9                 | 12.5                 |
| - Fiat                | 240,196          | +5.9              | 10.1                 | 10.4                 |
| - Lancia              | 34,086           | +24.6             | 1.4                  | 1.3                  |
| - Alfa Romeo          | 33,063           | +22.6             | 1.4                  | 0.8                  |
| PSA Peugeot Citroen   | 285,836          | +18.2             | 12.0                 | 11.1                 |
| - Peugeot             | 164,878          | +17.3             | 6.9                  | 6.5                  |
| - Citroen             | 120,958          | +19.4             | 5.1                  | 4.7                  |
| Ford group            | 270,871          | +11.4             | 11.3                 | 11.2                 |
| - Ford                | 268,527          | +11.2             | 11.2                 | 11.0                 |
| - Jaguar              | 4,344            | +28.6             | 0.2                  | 0.2                  |
| General Motors        | 267,558          | -0.7              | 11.2                 | 12.4                 |
| - Opel/Vauxhall       | 255,031          | -1.3              | 10.7                 | 11.9                 |
| - Saab                | 11,234           | +8.3              | 0.5                  | 0.5                  |
| Renault               | 241,977          | +14.7             | 10.1                 | 9.7                  |
| BMW group             | 129,397          | +1.0              | 5.4                  | 5.9                  |
| BMW                   | 65,066           | +2.1              | 2.8                  | 3.0                  |
| Roller                | 63,331           | -0.2              | 2.7                  | 2.9                  |
| Mercedes-Benz         | 88,976           | +14.4             | 3.7                  | 3.8                  |
| Volvo                 | 45,071           | +8.1              | 1.8                  | 1.8                  |
| Nissan                | 71,218           | +13.6             | 3.0                  | 2.9                  |
| Toyota                | 68,725           | +15.3             | 2.9                  | 2.7                  |
| Honda                 | 35,215           | +7.7              | 1.5                  | 1.5                  |
| Mitsubishi            | 32,547           | +33.7             | 1.5                  | 1.5                  |
| Mazda                 | 31,179           | +3.7              | 1.3                  | 1.4                  |
| Total Japanese        | 275,913          | +13.7             | 11.5                 | 11.2                 |
| Total Korean          | 51,586           | +17.2             | 2.2                  | 2.0                  |
| <b>MARKETS:</b>       |                  |                   |                      |                      |
| Germany               | 541,700          | +3.0              | 22.7                 | 24.2                 |
| Italy                 | 491,500          | +23.3             | 20.6                 | 18.3                 |
| United Kingdom        | 408,200          | +10.4             | 17.1                 | 17.0                 |
| France                | 277,500          | +6.7              | 11.6                 | 11.7                 |
| Spain                 | 160,100          | +13.1             | 6.7                  | 6.5                  |

\*WW holds 70 per cent and management control of Skoda.  
\*\*Includes cars imported from UK and sold in Western Europe.  
\*\*\*Includes 50 per cent and management control of Saab Automobile.  
\*\*\*\*Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.  
\*\*\*\*\*ACEA European Automobile Manufacturers' Association figures are rounded.

## Turkey's generals warn PM

By John Bartham in Ankara

Turkey's powerful military has sharply criticised Mesut Yilmaz, the prime minister, for saying generals were interfering in politics.

Hürriyet, one of Turkey's mass-circulation newspapers, quoted an unidentified senior officer as saying: "No one in the Turkish Armed Forces has a coup in mind. The subject does not even come up in our conversations."

Mr Yilmaz, who took office nine months ago after an army-led "soft coup" against the Islamist coalition of Necmettin Erbakan, has upset the secularist military by refusing to impose curbs on Islamists. He appeared sympathetic to protests by women students over being barred from universities because they wore headscarves. Last week Mr Yilmaz obliquely criticised the generals by saying "I am warning everyone... the fight against fundamentalism is a joint, state struggle."

Invest with people  
whose global vision gives  
clients a brighter future.

Go ahead  
Go ahead with AXA

Invest with your plans. Go ahead with AXA. AXA is a world leader in insurance and investment, managing \$ 500 billion in assets. We provide a broad range of financial services around the world. In each of the 50 countries where we are present, our mission is the same. To help people build a better future. Our worldwide experience of cultures and economies gives us unique

knowledge and expertise to meet your financial goals. Find out more about AXA. Visit our website at [www.axa.com](http://www.axa.com) or call The Equitable 1-800-590-5959.

AXA



## INTERNATIONAL

## King Hassan brings in opposition

By Randa Khalaf, Middle East correspondent

Morocco's King Hassan at the weekend appointed the first opposition-led government since the country's independence, but the palace retained key aides in crucial ministries.

Led by 73-year-old Abdelrahmane Youssefi, leader of the Union Socialiste des Forces Populaires, the new government has seven parties in a coalition, with the opposition bloc - headed by the USFP and the nationalist Istiqlal party - taking the lion's share of posts.

The interior ministry, which enjoys wide-ranging powers and controls local governments, remains in the hands of Driss Basri, the king's trusted adviser. Abdelatif Filali, the incumbent prime minister, is also staying on as foreign minister, at a time when the fate of the Western Sahara, where Morocco claims sovereignty while the Polisario Front seeks independence, could be coming to a head with a referendum planned for the end of the year.

The king signalled several years ago his desire to bring the opposition into the government. But in elections last November no bloc emerged as the winner. The USFP, which came out as the single biggest party, won just 57 seats in the 225-member lower house and the opposition bloc 102 seats against 100 for pro-government parties and 97 for the centre. Meanwhile, elections for the upper house - which can force the resignation of a government, as can the king - ended with a centre and pro-government majority.

Following the opposition's complaints of vote-buying and irregularities during the elections, and criticism that the poll had dashed hopes for change, the king gave the USFP the chance to form a government for the first time in his 37-year reign.

Mr Youssefi said at the weekend that the cabinet

would focus on the three issues of the Western Sahara, employment and improving social conditions. His government takes over at a time of rising frustrations and unprecedented expectations, with an urban unemployment rate of 16 per cent, widespread illiteracy and a population waiting to reap the fruits of Morocco's macro-economic stabilisation.

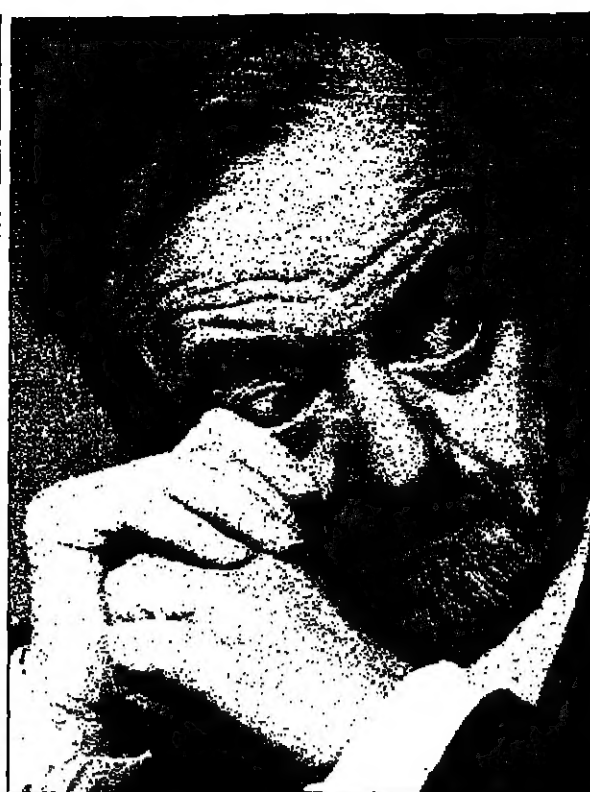
"There is an extraordinary wind of optimism in Morocco, and this can be dangerous," said an analyst with close ties to the USFP. With governments since the early 1990s seen as transitional, many Moroccans have been waiting for a stable and representative cabinet to tackle the country's problems. Analysts noted that both the palace and secular opposition have an interest in the success of the new government, to avoid letting in the Islamist opposition, now only marginally represented in parliament.

Financial analysts in Casablanca said the opposition parties would now face the challenge of honouring commitments to social issues while keeping the budget under control. Foreign investors will be closely watching for the new government to tackle corruption and Morocco's huge and inefficient bureaucracy.

The opposition will control the economic portfolios but will maintain the line set down the king's market-reform orientation.

The USFP's Fathallah Oualalou, a respected economist, becomes finance and economy minister, while the privatisation portfolio is handed to the Istiqlal's Rachid Filali.

Senior officials in the current government said they expected privatisation, which has recently faced setbacks, to remain a pillar of economic reform, with the government this year launching the privatisation of the telecommunications sector.



Robin Cook brushed aside Israeli protest picture Reuters

HAR HOMA NETANYAHU SAYS TRIP TO NEW SETTLEMENT IN JERUSALEM IS 'UNACCEPTABLE'

## Cook warned on Israel visit

By David Nathan in Edinburgh and Judy Dempsey in Jerusalem

The Israeli government yesterday said plans by Robin Cook, UK foreign secretary, to visit the site of a new Jewish settlement at Har Homa in east Jerusalem were unacceptable.

A statement issued after a cabinet meeting said the "Prime Minister [Benjamin Netanyahu] said the visit of the British Secretary to Har Homa is unacceptable to the Israeli government."

However, the statement fell short of saying Mr Netanyahu, also acting foreign minister following the resignation three months of David Levy, would not meet Mr Cook.

The Israeli government has always claimed it could

build where ever it liked in Jerusalem and that the capital is an undivided city. But the international community has not recognised Israel's claim to full sovereignty over Jerusalem. Its future status is supposed to be left until a final settlement between Israel and the Palestinians.

The cabinet statement was issued on the eve of Mr Cook's three-day visit to the Middle East, designed to make a greater European Union contribution to the peace process and to re-target EU aid more effectively on the Palestinians. Earlier, after a meeting of EU foreign ministers on Saturday in Edinburgh, Mr Cook brushed aside an Israeli protest at his plan tomorrow to visit Har Homa.

Mr Cook, who is making

his six-nation swing around the Middle East in his capacity as the current president of the EU, said his 14 fellow EU foreign ministers were unanimous that "we should make clear that we do not support expansion of settlements and I should make that clear in the course of my visit by visiting Har Homa."

Mr Cook said he hoped that the EU - the biggest aid donor to the Palestinians - would henceforth focus its assistance on trying to improve access for Palestinian goods to reach the outside world, particularly through the planned Gaza air and sea ports. He emphasised that Europe was not trying to upstage the US in the peace process.

Mr Cook said last night the main purpose of his trip

was to "stress the importance Europe places on a positive response" to a peace initiative which Washington is due to make "in the very near future". He added that he had been in close touch with Madeleine Albright, US secretary of state.

Avi Machlis adds from Jerusalem: A senior Israeli minister at the weekend tabled a new proposal for an Israeli troop withdrawal from occupied south Lebanon in an apparent attempt to try to keep the initiative in Israel's hands. Ariel Sharon, infrastructure minister, proposed a staged unilateral Israeli troop withdrawal.

The statement came as Syrian and Lebanese leaders discussed Israeli offers for a pullout in exchange for security guarantees at a weekend summit in Damascus.

## Developing countries urged to update phone rates

By Frances Williams in Geneva

Developing countries must accept the need for reform of the way the costs of international phone calls are shared between operators and join the move to competitive and globalised telecoms markets, according to the International Telecommunication Union.

In a background document prepared for the second world telecommunication policy forum, which begins today in Geneva, the 18-

member ITU, a United Nations agency, says the old accounting-rate system is heading for "the scrap heap" under the pressure of vigorous competition and new technologies such as cell-back, refilling (re-origination) and internet telephony.

Developing countries, which currently receive a net \$10bn a year from accounting rates, face losing a valuable source of foreign exchange earnings for improving their telecoms systems, subsidising domestic

customers and paying for other government services.

But the ITU says the benefits of liberalisation, including increased foreign private investment, outweigh the costs of trying to maintain an outdated system that is increasingly being bypassed by cheaper alternatives.

Accounting rates for international calls, which often bear little relation to cost, are agreed bilaterally between operators under a system administered by the ITU. Originally devised over

130 years ago for international telegraph traffic, the system worked reasonably well in an environment of state-owned telecoms monopolies and balanced traffic between countries.

However, the situation is changing rapidly. The ITU notes that the proportion of international telephone traffic open to competition has more than doubled from 35 per cent in 1990 to 74 per cent today and is predicted to rise to 85 per cent by 2005. Some 72 countries repre-

sented over 90 per cent of the global telecoms market have pledged to allow foreign operators into their markets under a World Trade Organisation accord.

Which came into force last month, enabling companies increasingly to provide "end-to-end" services over their own networks.

Moreover, the US, whose annual net payments under the accounting-rate system have risen to nearly \$6bn partly reflecting the explosion in US-based callback

and refilling services), has decided to force the pace of change by slashing maximum permitted rates for international calls paid by US operators.

This unilateral action, already under challenge in the US courts, has infuriated many ITU members and some, such as India, have threatened to complain to the WTO. But Donald MacLean, the ITU's strategic planning chief, says all sides would prefer a multilateral solution in the ITU.

## Turkmenistan seeks to attract foreign oil and gas investment

Carlotta Gall reports that reforms in the central Asian state have impressed executives of oil companies willing to join in the development of offshore Caspian Sea resources

Turkmenistan expects to sign several big production sharing deals with foreign oil companies this year, as oil and gas sector reforms finally attract large-scale foreign investment.

Qualification for Turkmenistan's first tender to explore offshore Caspian fields ended last week and Toli Kurbanov, minister for foreign economic relations, promised negotiations would

proceed quickly. "This year is going to be a critical one for Turkmenistan. We anticipate several deals," he said.

Turkmenistan has the world's fourth largest gas reserve as well as an estimated 20 to 40 barrels of oil, but has been slower than its neighbours in the Caspian region to invite in foreign oil companies.

The former Soviet republic has been hampered by its

lack of export pipelines. Until last year its only pipeline link was via Russia.

Lack of market reforms and a lingering suspicion of western intention has also deterred would-be investors. Mr Kurbanov, a 26-year-old banker who gave up a traineeship at Citibank in London to return home last year to his new post, is spearheading new policies to attract foreign investment.

Western oil executives were queuing up to meet Mr Kurbanov at an oil and gas conference in the Turkmen capital, Ashkhabad, last week. The young minister not only speaks fluent American-accented English but he and his team understand how foreign companies work.

"They are young professionals, enthusiastic in their work and are trying to adopt international practices," John Peck, managing director of the Malaysian oil company Petronas Carigali, said of Mr Kurbanov's team. "For us it is very encouraging indeed."

Mr Kurbanov's appointment 12 months ago signifies a general shift in Turkmenistan's policy towards investors. In the last year the government has passed a law on petroleum, drawn up model contracts for production sharing agreements and set up an expert council to work on long-term strategy.

Mr Kurbanov described the petroleum law as laying out a vision for equal treatment of national and foreign oil traders, a favourable tax regime and the use of PSAs and joint ventures for petroleum licensing. He said the government's new



remained in a precarious state.


The country has fallen heavily into debt since gas exports were stopped a year ago after a dispute with Russia over tariffs. The budget ran a deficit of \$600m last year - 35 per cent of gross domestic product - and debt levels doubled to \$1.2bn. Ashkhabad residents say there were bread shortages for six months last year.

Western officials say Turkmenistan's revival hinges on its hope of resuming gas sales, despite the failure six weeks ago of talks on the dispute with Russia.

The huge wealth of its energy resources will take a long time to materialise, though, Turkmenistan has yet to resolve the political difficulties it faces in exporting its oil and gas to international markets. Western oil experts say obstacles are the dispute over the status of the Caspian Sea between the five littoral states and the lack of firm solutions for export pipelines.

Every proposed pipeline is bogged down in political complexities, whether the one through Iran, which is out-of-bounds for US companies (and other groups risks incurring US sanctions) or through Afghanistan, with its continuing civil war or through the disputed area of Caspian Sea itself.

Until those issues are resolved investment will, in the words of one oil executive, be "slow and measured".

| <div>  <b>TIMAH</b><br/> <b>PERUSAHAAN PERSEROAN (PERSERO) PT TAMBANG TIMAH Tbk</b><br/> <b>AND SUBSIDIARIES</b> </div> |           |         |  |           |  |  |          |          |          |
|--|-----------|---------|--|-----------|--|--|----------|----------|----------|
| CONSOLIDATED BALANCE SHEETS  |           |         |  |           | CONSOLIDATED STATEMENTS OF INCOME  |  |          |          |          |
| 31 DECEMBER 1997 AND 1996  |           |         |  |           | FOR THE YEARS ENDED 31 DECEMBER 1997 AND 1996  |  |          |          |          |
| (In Millions of Indonesian Rupiah)   |           |         |  |           | (In Millions of Indonesian Rupiah and Thousands of US Dollars except Per Share Data in full Rupiah and US Dollars) |  |          |          |          |
| ASSETS   | 1997      | 1996    | LIABILITIES AND SHAREHOLDERS' EQUITY   | 1997      | 1996   | 1997   | 1996     | 1997     | 1996     |
| <b>CURRENT ASSETS</b>  |           |         | <b>SHORT TERM LIABILITIES</b>  |           |  | <b>SALES</b>   |          |          |          |
| Cash and cash equivalents  | 24,897    | 227,874 | Bank loans - related parties   | 167,582   | 69,868   | 691,614  | 148,734  | 607,904  | 130,732  |
| Prepaid expenses   | 238,566   | -       | Promissory notes   | 55,900    | -  | <b>COST OF GOODS SOLD</b>                              | 388,395  | 85,248   | 343,616  |
| Trade receivables (net of provision for doubtful accounts of nil 1997 and 1996)  | 37,844    | -       | Trade payables   | 31,038    | 29,914   | <b>GROSS PROFIT</b>                                    | 295,219  | 63,456   | 264,288  |
| Other receivables - (net of provision for doubtful accounts of nil 1997 and 1996)  | 95,215    | 55,480  | Royalty payable  | 2,028     | 1,571  | <b>OPERATING EXPENSES</b>                              |          |          |          |
| - Third parties  | -         | -       | Taxes payable  | 22,895    | 5,458  | Exploration costs                                      | 3,884    | 835      | 3,380    |
| Other receivables - (net of provision for doubtful accounts of 2,574 and 989 in 1997 and 2,574 and 410 in 1996)  | -         | -       | Dividend payable   | 198       | -  | General and administration expenses                    | 80,124   | 17,281   | 64,506   |
| - Third parties  | -         | -       | Other payables:  | 2,800     | 6,340  | Selling expenses                                       | 14,378   | 3,092    | 13,134   |
| - Related parties  | -         | -       | - Third parties  | 3,728     | 3,119  | <b>OPERATING INCOME</b>                                | 98,386   | 21,158   | 81,120   |
| Current maturities of long-term liabilities:   | 51,833    | 25,708  | - Related parties  | 8,401     | 4,811  | <b>OTHER INCOME/ (EXPENSES)</b>                        |          |          |          |
| - Provision for environmental protection and rehabilitation  | -         | -       | <b>Total short term liabilities</b>  | 325,280   | 146,708  | Equity in net income of unconsolidated related parties | 7,404    | 1,582    | 3,241    |
| <b>INVESTMENTS</b>   | 66,042    | 17,823  | <b>LONG-TERM LIABILITIES</b>   |           |  | Interest income  | 19,286   | 4,147    | 27,648   |
| <b>FIXED ASSETS</b>  |           |         | Net of current maturities:   |           |  | Interest expense and bank charges                      | (7,985)  | (1,719)  | (6,055)  |
| Net of accumulated depreciation of 388,779 for 1997 and 346,082 for 1996   | 388,181   | 262,372 | Provision for environmental protection and rehabilitation  | 21,718    | 12,473   | Miscellaneous income                                   | 41,982   | 9,024    | 12,313   |
| <b>OTHER ASSETS</b>  |           |         | <b>Total long-term liabilities</b>   | 71,716    | 12,473   | Miscellaneous expenses                                 | (1,015)  | (218)    | (357)    |
| Non-operational assets   | 15,491    | 2,571   | <b>Total liabilities</b>   | 337,296   | 159,282  | <b>INCOME BEFORE PROVISION FOR INCOME TAX</b>          | 256,585  | 55,182   | 219,556  |
| Deferred cost (net)  | 4,285     | 5,674   | <b>MINORITY INTEREST</b>   | 2,432     | 1,105  | <b>PROVISION FOR INCOME TAX</b>                        | (75,270) | (16,402) | (63,308) |
| Deferred exploration and evaluation costs (net)  | 50,038    | 29,207  | Share capital - Rp 500 per value per A class share and B class share Authorized: 1A class share and 999,899,899 B class shares Issued and fully paid - 1A class share and 503,301,999 B class shares | 251,891   | 251,551  | <b>NET INCOME BEFORE MINORITY INTEREST</b>             | 177,839  | 38,245   | 156,848  |
| Refundable deposit   | 55,827    | 44,951  | Share premium  | 120,792   | 120,792  | <b>MINORITY INTEREST</b>                               | (25)     | (5)      | (43)     |
| Long-term receivable:  |           |         | Foreign exchange translation adjustment  | 615       | 62   | <b>NET INCOME</b>                                      | 177,813  | 38,240   | 156,805  |
| - Related parties  | 15,732    | 2,074   | Retained earnings  | 438,896   | 308,948  | <b>OPERATING INCOME PER SHARE</b>                      | 391      | 0.08     | 364      |
| <b>Total other assets</b>  | 141,217   | 84,477  | <b>Total shareholders' equity</b>  | 809,995   | 681,453  | <b>NET INCOME PER SHARE (TO B SHARES PER GDR)</b>      | 353      | 0.07     | 331      |
| <b>TOTAL ASSETS</b>  | 1,180,025 | 841,821 | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | 1,180,025 | 841,821  | <b>NET INCOME PER GDR (TO B SHARES PER GDR)</b>        | 3,530    | 0.7      | 3,110    |

Notes:  
(1) The above consolidated balance sheets at 31 December 1997 and 1996, and the consolidated statements of income for the years ended 31 December 1997 and 1996 have been audited by Drs Hedi Sutanto & Rekan. Price Waterhouse with an unqualified opinion.  
(2) Operating income per share and net income per share are computed by dividing operating income and net income by the weighted average number of A and B class shares issued and paid up.  
(3) Net income per GDR is computed by multiplying net income per share by 10, which is the number of shares per GDR.  
(4) The translation of Rupiah into US dollars has been made at Rp 4,650 = US\$ 1 solely for the convenience of the reader and does not form part of the consolidated financial statements.

Jakarta, 16 March 1998  
S.E. & O.  
BOARD OF DIRECTORS OF  
PT TIMAH Tbk

## 中国出口商品交易会 CHINESE EXPORT COMMODITIES FAIR

# 83

The 83rd Session  
Spring '98

Covering a total floor space of 160,000 sqm., the current Chinese Export Commodities Fair is divided into six specialized exhibition halls, which are subdivided into 33 exhibition districts. The exhibits are displayed under six categories, i.e., Foodstuffs and Native Produce & Animal By-products, Light Industrial Products and Arts & Crafts, Textiles & Garments, Metals & Minerals and Chemical Products, Medicines & Health Products, Machinery & Electronic Products. Thousands of Chinese foreign trade corporations (enterprises), who are of good credibility and sound financial capabilities, display more than 100,000 varieties of commodities here.

For invitation application or further information, please contact Foreign Liaison Dept. of China Foreign Trade Centre (Group) or the Commercial Counsellor's Offices/Sections of the local Chinese Embassies/Consulates or China Travel Service (H.K.) Ltd. and its overseas branches.

Businessmen from all parts of the world are welcome to the Fair.

Time: April 15th-30th, 1998  
Sponsors: Chinese foreign trade enterprises  
Undertaker: China Foreign Trade Centre (Group)  
Add: 117 Lihua Road, Guangzhou, P. R. China  
Tel: 86-20-8678000 Ext. 87621, 87631, 8665846, 86661664  
Fax: 86-20-83335880, 86665851  
http://www.cfcfc.com E-mail: cfcfc@cfcc.com.cn



## ASIA-PACIFIC

## Big Australian telecoms sell-off planned

By Owen Robinson in Sydney

John Howard, the Australian prime minister, said yesterday his government would sell its remaining two-thirds stake in Telstra, the country's telecommunications group worth A\$60bn (US\$40.8bn), in one of the world's largest public share offers.

The plan was attacked by opposition leaders and sparked fresh debate about the government's ambitious

privatisation plans.

Mr Howard, speaking at a national conference of his Liberal-National coalition, linked his pledge to the re-election of his government in the next national poll. The proceeds from the Telstra sale would provide a "social bonus" for Australians, enabling the government to fund a variety of election promises as well as repay national debt, he said.

The initial one-third listing of Telstra on the Aus-

tralian Stock Exchange last November enabled the government to cut national debt by about \$900m. Mr Howard said yesterday the sale of the government's remaining stake would allow the retirement of about 40 per cent of debt, slashing annual interest payments. Foreign ownership of Telstra would be limited to 35 per cent, with a 5 per cent ownership limit applicable to each foreign investor, he added.

But the opposition Labor

party said it would fight to block further sale of Telstra shares, while independent MPs and small parties called for a referendum on the issue, setting the stage for a fierce political battle. The government has a majority in parliament's lower house, but in the upper house, or Senate, the balance of power lies with an independent senator and small parties.

Kim Beazley, opposition leader, described the government's plan as "a low trick".

"In the end, all Australians will lose by the loss of a great national institution out of their hands," he said. Brian Harradine, the independent senator whose vote last year enabled the passage of legislation for the initial one-third Telstra float, said he had reservations about a further sell-off.

Bob Brown, a senator with the Australian Greens, said the Telstra sale would widen the gap between rich and poor. "Rural Australians and

poorer people will get worse communications services while rich people avoid their taxes," he said. Mr Howard is widely expected to call an early election by October, partly because of fears that Asian economic upheaval will begin to affect the economy. He said he would soon introduce legislation to enable the Telstra sale, although it would not take effect until after the return of election writs.

## India's PM-in-waiting a man more popular than his party

Vajpayee is charming but the BJP's agenda is still seen as controversial, sectarian and divisive, writes Mark Nicholson

India's vast electorate may have delivered a complex, indeterminate and awkward parliamentary verdict in last month's elections. But Indian voters have at least handed the country's leadership to its most popular politician, Atal Behari Vajpayee, the 71-year-old Bharatiya Janata party leader and self-styled "prime minister-in-waiting" who looks set to be sworn into office this week as head of an unruly-looking BJP alliance.

It will in fact be a second chance at the helm for the schoolteacher's son from Gwalior in north India. Mr Vajpayee and the BJP held office for just 13 days after the indeterminate May 1996 elections, failing then to muster enough allies to govern. This time his tenure looks certain to run longer.

Mr Vajpayee, a published poet but lifelong politician, has consistently outscored the popularity of the Hindu nationalist BJP. Just a quarter of India's electorate voted for the party. But opinion polls routinely showed more than 40 per cent of Indians felt Mr Vajpayee would make the best prime minister - eclipsing even

Sonia Gandhi, the opposition Congress party's star performer and heiress to the Nehru-Gandhi dynasty.

Such standing is testimony to his perceived probity, genial charm, clever rhetorical skills, ready wit and easy laughter and, perhaps mostly, his standing as a moderate within a party which houses many sterner, more strident advocates of the BJP's Hindu-based and sectarian ideology of "cultural nationalism".

Mr Vajpayee is, as adversaries would put it, the "acceptable face" of the BJP. "He's a nice, avuncular senior statesman who makes you feel good," says Jaipram Ramesh, a Congress strategist.

Certainly, Mr Vajpayee's smiling face was consciously used by the BJP during the long election campaign, during which he addressed more than 80 rallies. Many of the BJP's new regional party allies may have differences with the Hindu nationalist party's core agenda, but few had qualms inviting votes to deliver Mr Vajpayee as an "able prime minister".

Less clear, though, is Mr Vajpayee's true standing within the BJP and, in par-

ticular, his relationship to its more militant ideologues and sister organisations and their agenda.

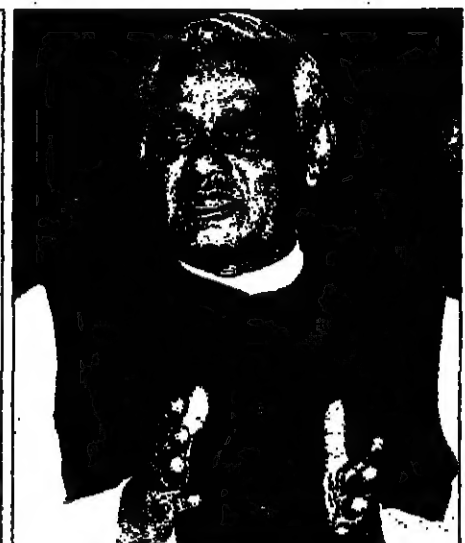
For many, the party's central leader is in fact Lal Krishna Advani, party president and a harder-edged figure altogether. Indeed, Mr Advani said lately that he had decided the party should project Mr Vajpayee as its prime ministerial candidate because "it has long been my view that in a country as vast and varied as India, the party leader should not be perceived as someone as ideologically rigid as I am... perceived to be."

The comment, however, raises the issue of the BJP's nature and the degree to which it seeks to pursue its more controversial policies of *Hindutva* or "cultural nationalism", policies its opponents have long opposed as religiously divisive and in many cases anti-Muslim.

Such policies will likely be soft-pedalled or even ignored while the BJP depends for governance on more than a dozen regional allies, almost all of which oppose *Hindutva*. Instead, the coalition partners are set this week to



Rivals: Gandhi (left), named new Congress leader at the weekend, and Vajpayee, post, politician and prime minister-in-waiting - will the waiting prove to have been worth it?



announce a "National Agenda" of issues such as reviving the economy and improving social services, which will provide the basis for government.

But *Hindutva* remains the BJP's defining ideology, and Mr Vajpayee's relationship to this ideology and its prime proponents within the BJP and its fellow organisations is ambiguous. The chief of such organisation is the Rashtriya Swayamsevak Sangh, a sect-like, ascetic and highly organised brotherhood established in the 1920s and devoted to the ideals of *Hindutva*. Many senior BJP leaders belong to the ranks of the RSS.

Though Mr Vajpayee's more worldly lifestyle sits

uneasily with the asceticism of the RSS, the future prime minister has been a member of the organisation since the 1940s and was embarrassed during the election campaign by publication of an article from a 1995 issue of *The Organiser*, the RSS journal, titled "The Sangh is my life", in which he spoke approvingly of its aims. The RSS was, he said, devoted to "changing the collective mind" in India, in particular to "organise the Hindus", while aiming also to "assimilate the non-Hindus, like Muslims and Christians in the mainstream".

Mr Vajpayee disavowed these remarks and, in fact, commands more respect among Muslims than most

other BJP leaders. This derives in part from his short tenure in the late 1970s as minister for external affairs during the Jana Sangh government, in which an earlier incarnation of the present BJP held a coalition berth. Mr Vajpayee then made serious efforts to improve India's relations with China and Pakistan.

His conciliatory and consensual qualities while in office therefore have precedent. Now, however, they are likely to be tested as never before. "I've been waiting 40 years to be prime minister, now it is my turn," Mr Vajpayee said recently. He and India will soon discover whether it was worth the wait.

## Mahathir names chief adviser to lead 'virtual IMF policy'

By Sheila McNulty in Kuala Lumpur

Mahathir Mohamad, the Malaysian prime minister, has designated his chief economic adviser, Daim Zaiduddin, to lead what economists refer to as the country's "virtual IMF policy".

Unlike its neighbours, Malaysia has resisted turning to the International Monetary Fund for a rescue package to address the effect of the regional financial crisis. Instead Malaysia has devised its own austerity package which observers say is an IMF programme in all but name: spending is being squeezed and big ticket projects suspended.

Mr Daim is at the heart of the package. He is a successful businessman and was a

former finance minister during Malaysia's last crisis, the mid-1980s recession.

He commands huge respect as an elder statesman. He was therefore seen as the perfect figure to explain economic policy after tensions rose between Dr Mahathir and his deputy and finance minister, Anwar Ibrahim, over how to handle the crisis.

But he has not been given carte blanche enforcement powers and that appears to be undermining his efforts to restore investor confidence and revive the economy.

Mr Daim said in an interview the conflicting statements from Dr Mahathir and Mr Anwar created a "big problem". Investors do not know who to listen to. To eliminate confusion, Mr

Daim recommended a single spokesperson be designated, as in the 1980s, but that has not happened.

When the authorities imposed a sweeping plan to merge the 39 finance companies and some of the 36 commercial banks by March 31, Mr Daim advised against announcing a deadline. His instincts were proved right as negotiations have been tough, forcing the authorities to "clarify" that the deadline was only for finance companies to agree on partners, as well as in principle on terms, and that there was no deadline for any of the commercial banks. This has rattled confidence in the authorities' ability to reform the sector.

From the start Mr Daim advised against bailouts. "There isn't a firm decision yet," Mr Daim says. In the meantime, analysts are pointing at deals they consider government-sanctioned rescues.

They also noted the decision by Petronas, the state oil company, to buy the shipping assets of Konsortium Perkapalan, a debt-burdened company controlled by Mirsan Mahathir, Dr Mahathir's eldest son.

Perhaps Mr Daim's most controversial recommendation has been to set aside racial quotas on share ownership, the cornerstone of an economic policy to give the majority Malay race parity with the wealthier Chinese minority. In the 1980s the authorities eased such curbs in manufacturing, which revived the economy.

## Battle for top job at Japan's central bank

By Michio Nakamoto and Gillian Tett in Tokyo

A bitter battle is heating up over the succession to the top job at the Bank of Japan (BoJ). But this time, the race for the governor's post, which is expected to be vacated by Yasuo Matsuhashita within weeks, is likely to be subject to different pressures.

In the aftermath of the worst scandal that has hit Japan's central bank since its founding, politicians have been throwing their weight around even more than usual in a tussle over the bank's independence.

Mr Matsuhashita is resigning following the unprecedented arrest of a BoJ official on suspicion of leaking critical information to two banks, in exchange for lavish entertainment.

The choice of a new governor would normally be determined by a long-held practice of alternating between senior central bank and finance ministry (MoF) officials - a tradition unbroken for nearly three decades.

But the extraordinary circumstances of Mr Matsuhashita's resignation have provided politicians with an excuse to try to influence the contest. This in turn is raising concerns about the impact political interference could have on the BoJ's independence.

Political pressure on the central bank governor had been building up even before the scandal began to unfold. For months, Hiromu Nonaka, an influential figure in the administration, had made unusually public calls for the resignation of Mr Matsuhashita, who was seen to have used his influence as a former finance ministry official and former executive at Sakura Bank, to "descend from heaven" to the top job at the central bank.

Now that Mr Matsuhashita is to go, politicians in the LDP see an opportunity to wrest policy-making power from the bureaucrats and, at the same time, improve their public image at the officials' expense.

LDP politicians have been calling for a new governor who comes from neither the bank nor the ministry. With national elections

approaching in July, the LDP desperately needs to boost its public image. By showing that they have a say in the BoJ succession, LDP politicians can claim the party is ready to act decisively and ruthlessly against corruption.

More worryingly, says Takao Toshihiko of Tokyo Inside Line, a newsletter, there is a camp within the LDP which has long aimed to weaken the power of the bureaucrats. "Governments in the past could not govern without the MoF," Mr Toshihiko says. Their intervention in the affairs of the bureaucracy, including the BoJ, will increase.

In addition, the new BoJ law which comes into effect next month requires greater disclosure of BoJ activities, raising the possibility that politicians will find it easier to influence decisions. Senior bank officials are already called to address the Diet more often than before.

Central bank officials acknowledge that the politicians are wielding considerably more power than they used to. But the BoJ is in a fairly strong position to resist political pressure.

For one thing, the Bank's future independence has already been defined in the new BoJ law. However bad the scandals, it is highly unlikely that the politicians will try to change the law passed last year.

The finance ministry, by contrast, has been damaged by the fact that the scandals have erupted just when its future is being discussed.

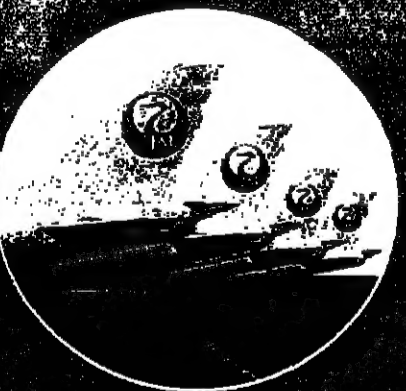
Under the new BoJ law, monetary policy decisions will be taken by a nine-member board and the minutes of their meetings published. There will be no politicians on this board and politicians will not be able to demand policy changes directly. Furthermore, politicians have shown little inclination to influence daily money market operations or even the level of the yen. And the bank's recent handling of the financial crisis - in contrast to that of the MoF - is generally considered to have been reasonably good.

So while political interference is set to increase, it is not expected to affect monetary policy seriously.

An age  
old saying  
states that  
quality is  
better than  
quantity.

In a breach  
of tradition

JAL is  
pleased to  
offer both



Not only do we offer unrivalled standards of service on our flights, we also have more of them.

JAL flies from Europe to Tokyo, Osaka and Nagoya more frequently than any other airline. And we have the advantage of afternoon and evening departures. Which means we can offer you a flight that fits in with your business rather than your business having to fit in with your flight.

For flight bookings or more information call your local JAL office or contact your travel agent.

JAL Japan Airlines

A BETTER APPROACH TO BUSINESS

## TENDER NO: 76/2992



Mobarakeh Steel Company intends to purchase 5500 M/ton high carbon ferro manganese with following chemical components:

MN : Min 78-80%

C : 5.5 - 8%

SI : Max 0.30%

S : Max 0.05%

P : Max 0.1%

Interested bidders may obtain a set of bidding documents by the submission of a written application and payment of non-refundable fee of USD500, through Central Bank of Islamic Republic of Iran, account no: 138, in favour of Mobarakeh Steel Company to the following address:

MOBARAKEH STEEL COMPANY  
RAW MATERIAL & ENERGY PURCHASING DEPARTMENT (RMP 115)  
FAX: 0098 31 327512 & 324324  
TEL: 0098 3355 3707 OR 0098-31-325325 EXT 3707

All bids must be delivered to above office on or before 30/4/98.

MOBARAKEH STEEL COMPANY



## THE AMERICAS

## Budget discipline 'worse'

By Stephen Fidler

Government budget discipline in Latin America showed signs of deteriorating last year even as the region put in one of its strongest economic performances for years, the Inter-American Development Bank says in its annual report published today.

The report remarks that though the population-weighted budget deficit for the region averaged just 2 per cent in 1997, deficits widened in 16 countries and exceeded 3 per cent of GDP in 10 of them.

The fiscal performance represents a disappointment, given growth of 5.3 per cent last year, the second fastest annual growth rate since 1980.

The report says the growth allowed unemployment to fall in the region for the first time since 1989. Real investment jumped by 10 per cent across the region, to a 21 per cent share of gross domestic product, compared with 18 per cent in the 1990s.

Confidence among US portfolio investors about Latin America has weakened in the past year, to a survey published yesterday shows.

The survey, commissioned by BankBoston of the US and announced in Cartagena, showed that 66 per cent of investors were more confident about the region than they were five years ago compared with 51 per cent last year.

INTER-AMERICAN DEVELOPMENT BANK ASIAN CRISIS OVERSHADOWS LATIN AMERICAN DISCUSSIONS

## IMF calls on Mercosur to cut tariff

By Stephen Fidler in Cartagena, Colombia

Directors of the International Monetary Fund have urged Mercosur, the trade grouping including Brazil, Argentina, Paraguay and Uruguay, to reverse the increase decided late last year in the group's common external tariff.

The call was contained in the report published by the Fund over the weekend to coincide with the annual

meeting of the Inter-American Development Bank.

The report, which followed the IMF's annual consultations with Brazil, drew attention to high levels of protection in some industrial sectors, and said some directors had called for a reduction in the protection provided to the motor industry.

The directors said: "The recently agreed increase in the common external tariff ran counter to the trade liberalisation trend." Argentina

and Brazil agreed an increase of 3 percentage points in the tariff in November last year, amid turbulence in the Asian financial markets.

The tariff increase was ostensibly a move by Argentina to replace a "statistical tax" on imports criticised by the World Trade Organisation last year. However, it was widely interpreted as a measure intended to curb large current account deficits in Argentina and Brazil.

The Fund stressed Brazil's need to implement budgetary measures and pending fiscal reforms and follow prudent monetary policy to ensure a sustained reduction in Brazil's current account deficit, which rose to 4.2 per cent of gross domestic product last year. This would minimise vulnerability to the continuing volatility in international financial markets.

It said the government should resist spending pressures that might arise in a general election year, following last year's overall fiscal deficit of 5.9 per cent of gross domestic product.

But, underlining the concern about the increase in spending by the Brazilian states last year, it said that spending restraint by the states was essential.

However, the fiscal policy envisaged - together with the use of most privatisation receipts for debt reduction - would facilitate a decline in

the overall public sector deficit and therefore a sustained reduction in interest rates during the course of the year.

The government was also urged to step up its efforts to reverse the recent shortening of maturities of new public debt and to reduce the share of debt linked to foreign exchange rates.

Directors "generally" supported Brazil's current policy of gradually depreciating the real exchange rate.

## Caracas sell-off hit by strike

By Raymond Collitt in Caracas

A general strike by employees of Venezuela's aluminium complex, one of the world's largest, threatens to shake investor confidence and drive down the sales price less than a fortnight before the privatisation.

With the government under pressure to see through the country's largest privatisation, workers at the Venezuelan Aluminium Corporation, a subsidiary of CVG, the state industrial holding company, began action last week in pursuit of wage rises and other labour benefits.

They are demanding a one-off "productivity bonus" of 600,000 bolivars (\$1,150) and a 12 per cent wage increase to match that paid by the bauxite plant, Bauxilum, one of four companies merged to form the corporation.

"It's obvious that they are taking advantage of the situation," said Alfredo Rivas, a CVG official, at the weekend. A productivity bonus was "absurd" as sales and production were down last year. However, the bonus would be considered at a shareholders' meeting on March 23, two days before the scheduled sale.

Combined production losses at the two aluminium smelters, the carbon anode producer and the bauxite plant that make up the corporation could reach \$2m a day. Mr Rivas admitted production had been affected at the strike, but said a contingency plan maintained the plant "operative" and avoided damage to the production cells.

The government last Friday fixed the base price for a 70 per cent stake in the corporation at \$2.1bn. The remaining shares will be offered to employees and retail investors. Merrill Lynch, the investment bank managing the sale, is said to have recommended a base price of around \$1.8bn. Yet, as one government official explained, "a base price under \$2bn would have provoked political opposition".

An increase in wages would come on top of some of the most generous labour benefits in any aluminium company worldwide. The future owners will also have to negotiate with a group of Japanese investors, who have a small share in one of the four companies. They are expected to trade their partial veto right in exchange for a guaranteed supply of aluminium.

The strike comes only days after it was known the government might have to return as much as \$160m to the consortium that bought the CVG's steel plant, Sidor, last December.

A lack of investment and maintenance in the weeks before the sale is said to have worsened the condition of the plant.

## Latin America looks muscular enough to fight off a crisis

Stephen Fidler examines World Bank's assessment of region's growth prospects in the light of Asia's economic problems

Asia's crisis will shave 1.5 percentage points off Latin America's growth this year, according to new projections from the World Bank.

Growth is now expected to slow to 2.9 per cent this year, compared with its pre-crisis estimate of 4.4 per cent, from 5 per cent in 1997.

But like all such predictions, the forecast depends on Latin America avoiding a crisis of its own.

According to a new report from Guillermo Perry, chief Latin American economist of the bank, regional economies are not immune from the problems that afflicted Asia - but by most measures of financial vulnerability they look stronger than their Asian counterparts.

According to Mr Perry, four factors, appearing in different degrees across the crisis-hit region, contributed to the vulnerability of the Asian economies.

● A build-up of short-term debt exceeding foreign exchange reserves, which rendered countries vulnerable to speculative attack.

● Heavy unhedged foreign currency borrowing by banks and companies reduced the ability of the authorities to devalue in a timely fashion without putting the private sector under great financial pressure.

● High levels of debt and low-quality bank loan portfolios meant banks and companies were vulnerable to rises in interest rates or economic slowdowns. This again

restricted the authorities' ability to respond to speculative currency attacks.

● A more traditional vulnerability of the external sector. Some economies faced exchange rate appreciation, encouraging a slowing of export revenues and high or widening current account deficits.

There were five root causes of these problems, according to Mr Perry. First, moral hazards - incentives to individual behaviour running counter to the public good - were evident in financial sectors. These hazards, such as implicit or explicit deposit insurance schemes, led bankers and investors to over-invest in financial assets.

Second, crony capitalism

covered up unprofitable business transactions.

Third, lax regulation and supervision of the financial system were aggravated by a lack of reliable information about banks.

Fourth, rigid exchange rate regimes led to perceptions that the risk of devaluation was low, while the linkage to an appreciating dollar curbed exports.

Fifth, "partial and ill-sequenced financial and capital account liberalisation programmes" had eased restrictions on foreign borrowing, while restricting foreign ownership of the domestic banking sector.

Mr Perry said Latin America shared some of these problems. But in other respects, the region was less susceptible to crisis.

The main Latin countries, apart from Peru, experienced

no large credit booms. Indeed, credit growth slowed after the 1994 Mexican financial crisis in Argentina, Brazil, Mexico and Venezuela.

Asset prices had increased by less than in the Asian countries, with the exception of Peru and Brazil.

Latin American economies also had higher ratios of reserves to M2 - a common measure of a country's vulnerability to runs on the currency. Bank restructuring and improvements in supervision have taken place across the region since the early 1980s, leaving financial sectors healthier than in Asia. Most exchange rate regimes, save Brazil and Argentina, were flexible - though foreign currency exposure of some economies was high. Brazil, Chile and Colombia discouraged short-term capital inflows.

Moreover, Latin American economies did not appear to have high ratios of short-term debt to reserves compared with their Asian counterparts.

Only in Mexico and Argentina were reserves exceeded by bad debt with maturity of less than a year, but their debt-to-reserves ratio was still lower than in Thailand, Indonesia and especially Korea.

And although there was some currency appreciation in Latin America between 1994 and 1997, it did not lead - for a variety of reasons - to slowdowns in export revenues.

"Though some indicators of vulnerability were apparent in some Latin American countries, they were not in general as severe as those of their Asian counterparts," Mr Perry concludes.

## BUSINESS EDUCATION

## Tailor-made for company directors

Realise your full potential...

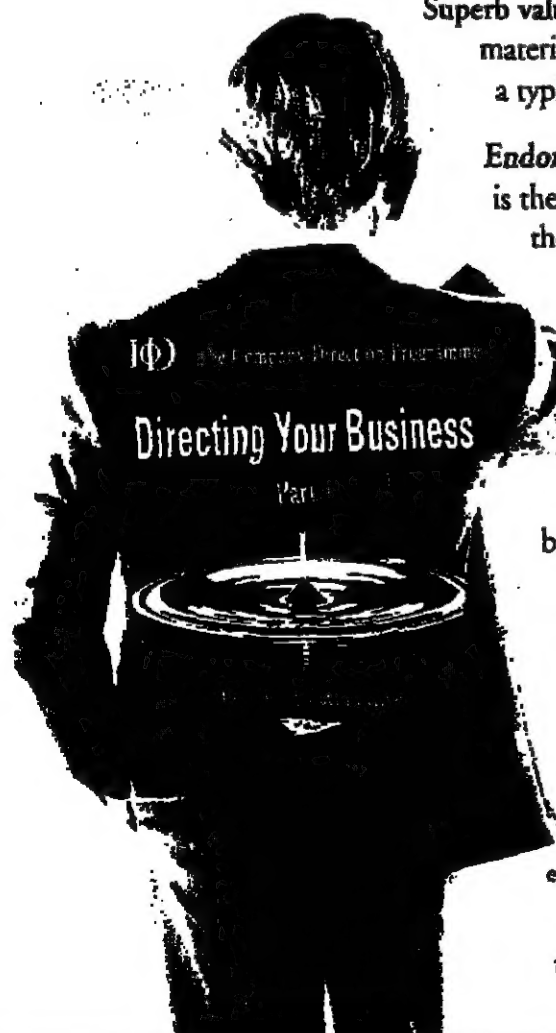
In today's highly competitive world, directors need to be able to understand and evaluate key business issues and trends. That is why more and more directors are taking the Institute of Directors' *Diploma in Company Direction*, the only development programme of its kind available through distance learning.

Superb value - The Diploma programme provides material for a full year's study yet costs no more than a typical short course lasting three or four days.

Endorsed by the IoD - The Institute of Directors is the leading authority on director development in the UK.

Study when you wish - Distance learning is a practical way in which company directors can acquire new skills. You choose where you study, when you study and you can learn at your own pace. Your company derives immediate benefit as your studies progress.

A lasting resource - The modules for the programme remain a valuable resource of reference for your company in the years ahead.



Send for your free prospectus

Fax: 0171 240 8018

e-mail: ioddip@btinternet.com

Tel: 0171 447 2021

Financial Times Management

128 Long Acre, London WC2E 9AN

Please quote reference no. 57



FINANCIAL TIMES MANAGEMENT



## Battle against Amazon fires

Firefighters battling infernos in Brazil's northern Amazon

appealed for more men and equipment yesterday, but the arrival of essential water-bombing helicopters was delayed. Reuters reports from Boa Vista.

Fires, set by subsistence farmers in the state of Roraima, have burned out of control for two months, destroying a vast swathe of land like that pictured above near the border town of

Roraima.

Officials say 2.2m acres of farmland has gone up in smoke, while a severe drought has killed 20,000 cattle.

Now the flames are eating into remote rainforest areas which are normally too wet to burn. A column of fire has pushed at least seven miles into the Portuguese jungle reservation of the primitive Yanomami Indians. A fire chief said 110 firemen

were trying to control the blazes but only 40 could work at any one time. The fires were spreading out of sight, under a carpet of dry leaves and branches on the forest floor.

Reinforcements were due to arrive late yesterday as a 70-member firefighting team from distant Rio de Janeiro was expected today. Roraima state officials are to rent 22 helicopters from a company in Venezuela. Picture AP

WHITE HOUSE KATHLEEN WILLEY MAKES PUBLIC ALLEGATION OF IMPROPER SEXUAL ADVANCE

## Claim deepens Clinton troubles

By Gerard Baker in Washington

President Bill Clinton's political and legal troubles over reported sexual liaisons and subsequent cover-ups deepened at the weekend with the first direct and public allegation by one of the women of an improper sexual advance by Mr Clinton.

Kathleen Willey, the widow of a former Democratic party luminary, was scheduled to appear on national television last night to give what was billed as a frank account of the event which she says occurred in late 1993.

Mr Clinton has already denied that any such encounter took place and yesterday his personal lawyer, Robert Bennett, said Mr Clinton was "bewildered" by the allegation. But the account seemed more problematic for the president

than the allegations of an affair with Monica Lewinsky that have engulfed the White House over the last two months.

Unlike Ms Lewinsky, whose allegations have not been made under oath, Ms Willey has now gone on public and legal record with her claim. Also unlike Ms Lewinsky, Ms Willey has said the encounter with the president was unwanted and unwelcome. She said she approached the president in November 1993 about the possibility of a job in the White House. She said she was in an emotional state over her husband's finances and claimed that, after a long conversation in private, the president aggressively kissed and groped her. She later got a post in the Clinton administration.

Ms Willey's allegations have been rumoured for

some time, but confirmation of them emerged late on Friday as part of the efforts by lawyers for Paula Jones, a former Arkansas state employee, to demonstrate a pattern of sexual harassment by Mr Clinton in her lawsuit against the president. They may prove valuable fuel for the work of the independent prosecutor, Kenneth Starr, who is investigating claims that Mr Clinton had an affair with Ms Lewinsky and then urged her to lie to Ms Jones's lawyers about it under oath.

Last week Ms Willey gave evidence to a grand jury investigating the alleged cover-up and she will be an important witness in any case Mr Starr constructs against the president.

Ms Willey also alleged efforts were made by a prominent Democratic fundraiser to lie under oath about the

alleged encounter. Mr Starr is already investigating claims that Ms Lewinsky received job offers from companies with close ties to leading Democrats in return for her silence.

The Willey testimony was one document among 700 pages of evidence given by Ms Jones's lawyers to the judge hearing the sexual harassment case. These also contained claims that other women had been induced to lie about Mr Clinton's sexual past when he was governor of Arkansas. But there was little in the form of independent corroboration of those claims.

Nor was there much evidence to support Ms Jones' allegation that she suffered direct loss as a result of her encounter with the president, in which she alleged she refused to perform a sexual act with him.

## If you really want to learn about global business, work with the only global business school.

Executive development programmes (1 day - 4 weeks) • Corporate programmes (tailored for organisations) • Certificate, Diploma, MBA and Doctoral programmes

Henley Management College is the only business school that is itself a global business. It operates in over thirty countries and with managers from over one hundred countries every year. We offer a comprehensive service for managers and organisations world-wide.

The experience you'll gain with Henley will be valued wherever your business takes you. For more information call Noel Blatchford now. Tel: +44 (0) 1491 418803 Email: info@henley.ac.uk Internet: www.henley.ac.uk



Handwritten signature or stamp.



## FISCAL STABILITY CODE AIMS TO PROMOTE TRANSPARENCY

## Ministers move on 'giveaway' budgets

By Robert Chote and George Parker

The government will today publish a legally binding code to prevent future chancellors of the exchequer from delivering unsustainable "giveaway" budgets which wreck the public finances.

The "fiscal stability code" - published on the eve of Gordon Brown's second budget - will require the chancellor to show how budget measures comply with long-term objectives for the public finances. The Treasury will have to publish projections of government borrowing and other key fiscal variables for at least 10 years into the future.

This year's finance bill, which will give legal force to measures in tomorrow's budget, will require every incoming government to publish its own code, explaining how fiscal and debt management policy will satisfy requirements of transparency, stability, responsibility, fairness and efficiency.

The government will only be able to change the terms of the fiscal stability codes they set themselves with parliamentary approval. Mr Brown believes the code will enhance the credibility of fiscal policy, reassuring voters and the financial markets that the government has no intention of relaxing the discipline it is exercising over the public finances.

He sees it as complementary to his decision to surrender control of interest rates to an independent Bank of England, the UK central bank.

But Mr Brown's fiscal approach yesterday came under attack from Labour MPs and trade union leaders, who argued he should impose tax rises on the better off as a means of easing inflationary pressure and reducing the value of sterling.

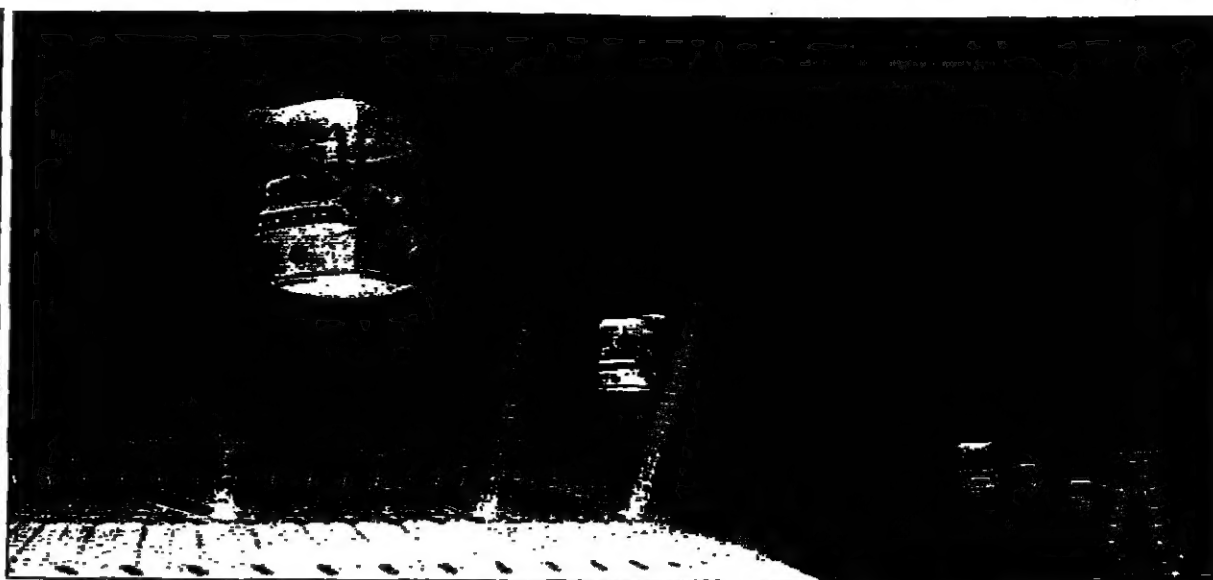
Ken Livingstone, the left-wing Labour MP, claimed Mr Brown was "worse" than many Conservative chancellors, and that he had been

indoctrinated by "Thatcherite nonsense". He is demanding increased health and education spending. John Edmonds, leader of the GMB general union, said high interest rates were crippling industry and that tax rises for those earning more than £50,000 (£83,500) should be introduced.

Mr Brown has said that his budget will be "prudent with a purpose" and will include a range of tax and benefit changes to encourage people on benefits to return to work.

Other measures are expected to include abandoning the controversial £50,000 ceiling on investments in the proposed Individual Savings Accounts, a crackdown on tax avoidance and a number of environmental taxes, including penalties on the use of company cars.

The Treasury yesterday refused to comment on reports that Mr Brown would also use the budget to end admission charges for national art galleries and museums.



## Cable cars to carry dome passengers

Visitors to the Millennium Dome in Greenwich, south-east London, will be able to soar over the Thames by cable car under an £8m (£13m) project, Charles Batchelor writes. Travelling 80 metres above the river, visitors will have spectacular views of the City of London and historic Greenwich from 23 gondolas. The scheme - promoted by Meridian Cable Cars - will use funding from a mix of private investors, loans against forecast revenues and the possible leasing of the system, to be supplied by Doppelmayr of Austria. The cars will come from another supplier in continental Europe.

## Insurers consider '2000 bomb' clauses

By Christopher Adams, Insurance Correspondent

Marine and aviation insurers may introduce exclusion clauses designed to protect them from claims relating to the millennium "bomb".

Underwriters at Lloyd's and companies operating in the rest of London's commercial insurance market are discussing measures to limit their exposure.

Commercial insurers have several concerns. Ships and aircraft, for instance, could lose power because of the

problem - caused by the failure of some computers to recognise dates after 1999. Navigational systems may fail, cargo could be wrongly delivered and refrigerated containers might stop functioning.

"We are trying to coordinate a common approach and are looking to create an exclusion clause," said Stephen Redmond, chairman of the Institute of London Underwriters, which represents some 40 marine insurers in the London companies market. "We'll pay for fortu-

ties, but we won't pay for inevitabilities."

The institute is working with other trade groups representing marine and aviation underwriters in Lloyd's and the London companies market. Together, they insure 20 per cent of the world's commercial shipping fleet.

Aviation underwriters are due to meet leading international insurance brokers this week to try and agree draft wordings. While exclusions could be in place from May, underwriters could provide

limited cover against the bomb if aircraft manufacturers show they have taken action to ensure systems can cope. "There would be a questionnaire. If operators have taken adequate measures, then we could give cover for defined perils such as aircraft accidents," said James Healey-Pratt of the Aviation Millennium Action Group, set up by London underwriters.

Mr Redmond said marine insurers were also discussing providing cover as long as policy holders demon-

strated their systems were compliant. He said several underwriters specialising in energy and cargo insurance had begun writing exclusion clauses, but a common formula was essential in a market where many may be insuring the same risk.

He added that the London insurance market would have to be cautious in applying any exclusions. The current soft market conditions and intense competition globally were making it difficult to impose restrictive terms on policies.

## NEWS DIGEST

## NORTHERN IRELAND

## Blair may take personal role in peace process

Tony Blair, the UK prime minister, is set to take an increased personal role in the Northern Ireland peace process as negotiations enter their final stages. Mr Blair is keen for the participants in the talks to reach agreement on a proposed settlement next month and for the deal to be put to a joint referendum in Northern Ireland and the Republic of Ireland in May. "As we go into the final weeks, it could be that the prime minister's role intensifies," Mr Blair's office said. The prime minister would not usurp the role of Mo Mowlam, the chief Northern Ireland minister in the UK government, or former US senator George Mitchell, the talks chairman.

Meanwhile, one of the four pro-British "loyalists" charged with murdering two friends - a Roman Catholic and a Protestant - in a pub in Poyntzpass in the province was yesterday found dead in his prison cell. David Keys, who was 26, hanged himself at the Maze Prison. George Parker, London.

## RETAILING

## US group in supermarket deal

Inter-Act Systems Europe, a subsidiary of the US group Inter-Act, has agreed a deal with J Sainsbury, the UK's second-biggest food retailer, to introduce touch-screen kiosks in its stores. Inter-Act Systems will be footing a bill of more than £10m (£16.7m) to set up more than 1,000 kiosks in the chain's 344 stores if initial three-month trials in 13 stores prove successful.

The kiosks will enable Sainsbury's 10m loyalty card holders to take advantage of product discounts of up to £25.50 per visit, redeem loyalty points and find recipe ideas. Eventually, the technology could offer financial services by linking with the J Sainsbury Bank, or print out suggested shopping lists based on previous repeated purchases.

Although other UK retailers such as Sainsbury are experimenting with interactive kiosks, few are thought to be running trials as extensive as those planned by Sainsbury. Blair Jenkins, of Inter-Act Europe, said both companies anticipated that after the initial trials in May, the kiosks would be rolled out throughout the chain by the end of 1999. Peggy Hollinger, London.

## OBITUARY

## Mary Bunter

Mary Bunter, a senior sub-editor on the Financial Times, died yesterday at the age of 44, after a long illness. She had been battling cancer for the last six years. Mary joined the FT in April 1986 as an experienced sub-editor after a career in regional newspapers in the Midlands and London. She played an important part in a period of rapid change in technology and editing structure at the newspaper. On top of her professional accomplishments, her many friends at the newspaper will remember her ready sense of humour and unfailing cheerfulness - even as she struggled with great courage against her illness. Her determination not to be beaten was demonstrated by her decision last autumn to study for a law degree at King's College, London.

## BBC resists mutualisation

By John Gapper, Media Editor

The BBC is resisting a suggestion that it should become a mutually owned organisation, allowing its 21m licence fee payers a vote on its board of governors and freeing the organisation to raise new capital.

The proposal, which is to be aired publicly this week, has already been considered among a range of options for the future ownership structure of the BBC by advisers to Chris Smith, the chief minister for culture.

However, the proposal has been resisted by senior managers at the BBC and is not part of government plans. It is to be suggested publicly on Friday in a booklet published by the Institute for Public Policy Research.

Mutualising the BBC, which would involve ending government ownership and instead giving licence payers - through whom the corporation is funded - control

would constitute a radical alternative to the privatisation of similar state assets.

Mr Smith has said he wants to reinforce the accountability of the BBC's board of governors to ensure it is not distracted by commercial ventures from a commitment to public service broadcasting.

He has also said the government will review the BBC's funding within two years. This could allow ministers to reconsider mutualisation.

City advisers are thought to support the idea because it would allow the corporation to be removed from the public sector borrowing requirement and raise money in capital markets.

Such a move would be accompanied by safeguards to stop the BBC being forced by members into a flotation. NatWest Markets estimates the potential market value of the corporation at about £4bn (£6.7bn), or £190 per licence fee payer.

USWEST  
INTERNATIONALMediaOne  
International

ANNOUNCING THE NEW BUSINESS MODEL

for

GLOBAL COMMUNICATIONS EXPERTISE



Now US WEST International is also known as MediaOne International.

And now there's another name for innovation in telecoms in Europe and Asia.

In the UK, we introduced the world's first PCN wireless service and the world's first combined cable telephone service. We're the same company that launched the first

and now the largest analog and digital wireless services in Central Europe. And we've introduced cable telephone services in five international markets, including the world's most highly penetrated cable markets.

So if you're looking for a new model for success in international telecoms, look to the one company with two names.



## THE WEEK AHEAD

## DIVIDEND &amp; INTEREST PAYMENTS

## TODAY

Abbey National Treasury 7 1/4%  
Gtd Nts 2001 £71.25  
Auto Fdg No 2 Class A FRN  
2003 £1944.09  
Do Class B FRN 2003 £1999.57  
Brunswick \$0.125  
Chester Asset Rcvls No 2  
Asset Bkd FRN 2001 £1945.41  
City Mortgage Rcvls 1  
Mtg-Bkd FRN Feb 2023 Ser  
1996-2001 £39.37  
Do No 2 Oct 2023 Ser  
1996-2002 £44.28  
Do No 3 Class A Oct 2023  
£40.36  
Do Class B Oct 2023 £57.0  
Do No 4 Class A Aug 2028 Ser  
1997-2001 £48.08  
Do Class B Aug 2028 Ser  
1997-2001 £57.0  
Do No 5 Class A Sep 2032  
£27.58  
Do Class B Sep 2032 £76.59  
Do No 6 Class A Mar 2029 Ser  
1997-2003 £47.73  
Do Class B Mar 2029 Ser  
1997-2003 £57.0  
Crestree 2p  
Daejin 19p  
Granada FRN 1999 £2066.46  
Honda Motor 3.6% Bd 2001  
Y380000.0  
Honeywell \$0.28  
Midland Bank Non-Cm S Pf Ser  
A1 \$0.355  
Do A2 \$0.08875  
Do B1 \$0.41

Do B2 \$0.1025  
NKK 5.3% Bd 1999 Y330000.0  
Do 5.4% Bd 2000 Y540000.0  
NTT Data 3.3% Bd 1999  
Y330000.0  
Penderford Mortgage No 1  
Class A1 Mtg Bkd FRN 2037  
£237.99  
Do Class A2 £1954.32  
Do Class A3 £1954.29  
Do Class A4 £1959.28  
Do Class A5 £22011.86  
Residential Mortgage Secs No 2  
Class M Mtg Bkd FRN 2037  
£202.41  
Do Class B £267.23  
Santander Fin Iss Sb Gtd FRN  
2004 £315.58  
Do Sb Un Var Rate Nts  
£4351.56  
Smith (David S) 2.7p  
Thames Asset Global Sec No 1  
Class A2 Asset Bkd FRN 2037  
£1954.29  
Do Class A3 £1974.26  
Do Class B £2044.07  
Thompson \$0.155  
Ushers of Trowbridge 1.95p

## TOMORROW

Chase Manhattan Sb FRN 2009  
\$151.56  
Daiva Europe Bank 4% Nts  
1998 Y2000000.0  
Do FRN 2000 Y191165.0  
Do 4 1/4% Callable Nts 2000  
Y2250000.0  
Do 4 1/4% Non-Callable Nts 2000

Y2250000.0  
Do 5% Sb Nts 2005  
Y2500000.0  
Export-Import Bank of Japan  
9 1/4% Gtd Bd 1999 \$475.0  
Hongkong & Shanghai Banking  
Prim Cap Und FRN (Ser 2)  
\$78.91  
Limited Inc \$0.13  
Midland Int Fin Gtd FRN 1999  
£298.52  
Nippon Light Metal 5.3% Bd  
1998 Y330000.0  
Do 5.8% Bd 2000 Y560000.0  
Park Food 1.1p  
Royal Bank of Canada Flt Rate  
Dk 2085 \$153.13  
Sprintab FRN Sep 1998 \$153.19  
Toyota Motor 5 1/4% Bd 1998  
\$56.25  
Welsh Water Utilities Fin 7 1/4%  
Gtd Bd 2004 £71.25

## WEDNESDAY

MARCH 18  
Abbey National Treasury 6 1/4%  
Gtd Nts 2002 \$63.75  
BPI Cap Fin Ser A FR N/Vtg Pf  
\$0.41  
BTM Fin (Curacao) 6 1/4% Gtd  
Bd 2003 \$68750.0  
Do 7 1/4% Gtd Bd 2008  
\$71250.0  
First National Bldg Scty Flt  
Rate Perm Int Brg \$48.78  
Flash Ser Theta Scty FRN 1999  
Y240203.0  
Telsat 2.7% Bd 1998 \$270000.0

1.5p  
Japan Airlines 4.6% Bd Mar  
1998 Y480000.0  
Do 5.8% Bd 2003 Y560000.0  
Lloyds Bank Ser C Var Rate Sb  
Nts 1998 £193.10  
Mashead Insurance  
Underwriting 2.3p  
Scottish Hydro-Electric 5.81p  
Sumitomo Chemicals 6.4% Bd  
1999 Y840000.0  
Sumitomo Realty 6.1% Nts  
1998 Y610000.0  
Do 6.15% Nts 1999 Y615000.0  
Do 6.2% Nts 2000 Y620000.0  
Tokai Fin (Curacao) Und Gtd  
FRN Y1190137.0

## THURSDAY

MARCH 19  
Albion 2.5p  
BPI Cap Fin Ser B Step-up Gtd  
N/Vtg FRN Pf \$0.44  
Birmingham Midshires Bldg  
Scty FRN 2000 £191.48  
Kleinwort O'Leary Inv Tst 1.7p  
Leek Fin No 1 Class A2 Mtg  
Bkd FRN 2037 £1933.92  
Do Class M £1880.77  
Do Class B £2047.35  
Manubri Int Fin Euro Yen Gtd  
Nts 1998 Y545886.0  
NT & T 10 1/4% Bd 2001  
CS102.50  
Ransomes 5 1/4% Cm Pf 1.925p  
Sotheby's Class A Lm/Vtg  
\$0.10  
Telsat 2.7% Bd 1998 \$270000.0

## UK COMPANIES

## TODAY

BOARD MEETINGS:  
Finals:  
ASW Hldgs  
Anglo Pacific  
Bunzl  
Emesa  
Gibbs & Dandy  
Gowring  
Hammerston  
Metabank  
Pearson  
Sun Life & Provincial  
Vanguard Media  
Wellington  
Internets:  
Groupe Chez Gerard  
Ideal Hardware  
MARCH 20  
Abbey National Treasury  
Cno-Tec Ltd Gtd Nts 2006  
FF135.0  
Alcan Aluminium \$0.15  
American Int \$0.075  
Asahi Brews 7.3% Bd 2000  
Y730000.0  
Exchequer 10 1/4% 2005 £5.25  
Commercial Union 10 1/4% Gtd  
Bd 2002 £107.50  
Dawn Tl Dusk 1.4p  
East Rand Gold R0.65  
Enron \$0.2375  
Eva 2.3p  
Fosters Brewing ASD.05  
Free State Cons R0.75  
M & G Equity Inv Tst 0.95p  
Do Units 0.85p  
Southvale R5.70  
Thornorton Tst 1.45p  
Vaal Reefs R8.75  
Watson & Philip R13.1p  
Western Deep R4.80

## FRIDAY

MARCH 20  
Abbey National Treasury  
Cno-Tec Ltd Gtd Nts 2006  
FF135.0  
Alcan Aluminium \$0.15  
American Int \$0.075  
Asahi Brews 7.3% Bd 2000  
Y730000.0  
Exchequer 10 1/4% 2005 £5.25  
Commercial Union 10 1/4% Gtd  
Bd 2002 £107.50  
Dawn Tl Dusk 1.4p  
East Rand Gold R0.65  
Enron \$0.2375  
Eva 2.3p  
Fosters Brewing ASD.05  
Free State Cons R0.75  
M & G Equity Inv Tst 0.95p  
Do Units 0.85p  
Southvale R5.70  
Thornorton Tst 1.45p  
Vaal Reefs R8.75  
Watson & Philip R13.1p  
Western Deep R4.80

## TOMORROW

COMPANY MEETINGS:  
First Choice, The Farmers &  
Fletchers Livery Hall, 3, Cloth St.,  
E.C., 10.30  
First Leisure, Equinox, Leicester  
Square, W.C., 12.00  
Witan Investment, Royal  
Horticultural Society, Vincent  
Square, S.W., 7pm  
BOARD MEETINGS:  
Finals:  
Infobank Int  
Portmearon Potteries  
Internets:  
Fortnum & Mason  
Heart of Midlothian  
Minerva  
Company meetings are annual  
general meetings unless stated.  
Reports and accounts are not  
available until six weeks after the  
board meeting to approve the  
preliminary results. This list is not  
comprehensive since companies  
are not obliged to notify the Stock  
Exchange of announcements.

## WEDNESDAY MARCH 18

COMPANY MEETING:  
Ward Holdings, 82, New  
Cavendish Street, W., 2.30  
BOARD MEETINGS:  
Finals:  
Bostron  
Bowthorpe  
Cairn Energy  
Cakebread Robey  
Canning (W)  
Churchill China  
Claremont Garments  
Devro  
Holmes Place  
Isstock  
Kingfisher  
Laird (John)  
Roxbury  
Wassell  
Weir  
Wilson (Connolly)  
Xaar  
Internets:  
LAW  
Goshouse  
Schroder Ventures  
Sider  
Smiths Inds  
Thorpe (FW)

## THURSDAY MARCH 19

COMPANY MEETING:  
Securitor, Ironmongers Hall,  
Barbican, E.C., 11.00  
BOARD MEETINGS:  
Finals:  
Baynes (Charles)  
Bodycote Int  
Bovis Homes

## CONFERENCES &amp; EXHIBITIONS

Conferences  
&  
Exhibitions

## MARCH 21 &amp; 22

**GANN**  
Market Forecasting Seminar  
With the World's Top Gann Experts  
• Peter Pich - President, Gannach  
Publishing - Forest Hills - Case Analyst  
• Michael Gregory - Research Director,  
Micro Technical Analysis  
Basic to Advanced GANN Techniques  
 taught. £395  
Contact: Andy Pascholi  
Cycles Analyst  
Tel/Fax: 01757 845231  
cycleanalyst@me.com

## MARCH 23 &amp; 24

**KORSA**  
A unique opportunity  
to meet the new leadership  
This timely conference will be the first to  
be addressed by newly-elected President  
Kim Dae Jung and his incoming  
government, providing the international  
business and financial communities with  
the opportunity to review new government  
policies and assess implications for foreign  
investment and trade.  
Contact: Christopher Kelly  
FT Conferences Tel: +44 171 896 2633  
Fax: +44 171 896 2696  
Email: ftc@pearson-pro.com

## SEOLUL

**Public Relations in China**  
*Myths and Realities*  
China is one of the world's fastest-  
expanding markets and presents  
excellent business opportunities  
generated by the rising living  
standards.  
Participants will meet two public  
relations experts from China, Scott  
Kronick and Li Hong from Ogilvy &  
Mather PR, the largest PR  
network in Asia. Ways to increase  
market penetration by using PR to  
build brand awareness and  
practical advice such as selecting  
an agency will be discussed.  
Time: 6.00-8.00 PM  
Venue: PRCA, 15th Floor, Willow  
Place, London SW1P 1JH  
Tickets: £25.00 (incl VAT)  
Contact the PRCA on:  
Tel: 0171 233 6026  
Fax: 0171 886 4797  
e-mail: cth@prca.org.uk

## The 3rd International

**Financial Fraud Convention**  
Financial Fraud presents the most  
serious challenges to the stability of  
financial institutions and markets  
today. Threats to coincide with the  
UK Presidency of G7 and EU,  
senior executives from  
multinational banks, IMF, World  
Bank, UN, FATF, EU, US Treasury,  
will comprehensively examine  
recent initiatives towards a global  
standard of fraud prevention, the  
vulnerability of institutions and  
markets, and strategies for asset  
recovery and recovery. Applicable  
for senior executives responsible  
for their organisation's compliance,  
supervision, and the protection of its  
financial and operational integrity.  
Contact: Trevor Gae  
Tel: +44 (0) 171 419 1000  
Fax: +44 (0) 171 419 1000  
E-mail: info@financialfraud.com  
http://www.financialfraud.com

## Senior Power &amp; Gas Executives

**European Power Industry**  
Forum (CEPIF 98)  
March 24, 25 and 26 Warsaw  
Keynote: Minister Emil Wleciak,  
Ministry of Treasury, Poland,  
Privatisation, Finance, Regulation,  
plus Shell & Gazprom's  
Cooperation Programmes.  
Presenting Polish Power Grid  
Company, PAA, CEZ, National  
Power, MVM, PreussenElektra,  
E.ON, RWE, Ruhrgas, Stet,  
Terna.  
Post Conference Seminar:  
Energy Law/Regulation & Risk  
Management and Contracting  
Issues  
Pannell C&E  
Phone: 0201 30 260063  
Fax: 0201 91 280028  
http://www.pannell-europe.com

## MARCH 26 &amp; 27

**Mediterranean Capital Markets**  
The British Government, as Presidency  
of the EU, is pleased to announce this  
major two day conference, supported by  
the European Commission and FT  
Conferences, examining fast-growing  
capital markets of the Southern  
Mediterranean region. Speakers include:  
Mr Eddie George, Governor of The Bank  
of England, Dr Yousef Boutros Ghali,  
Minister of Economy, Egypt, Mr Andry  
Kling Bessan II of Morocco.  
Enquiries: Sam Pascoe  
Tel: +44 171 896 2626  
Fax: +44 171 896 2696  
Email: sam@pearson-pro.com

## LONDON

## MARCH 31 - APRIL 1

**Strategic Performance**  
Measurement 98  
Our 3rd annual performance  
management conference helps you  
pinpoint the correct balance of  
incentives, link them to your strategic  
objectives and address the behavioural  
issues that can prevent effective  
measurement.  
Contact: Jane Mills  
Tel: 0181 879 3355  
Fax: 0181 879 1122  
Email: jane.mills@business-intelligence.co.uk

## LONDON

## How to Develop Markets in

**the USA**  
One day conference with  
distinguished panel of speakers  
including:  
Professor Roger Needham,  
Managing Director, Microsoft  
Research Labs, Cambridge  
Other speakers will cover:  
Venture Capital, Marketing, State  
incentives, Export Assistance, Location & Legal  
Considerations, Banking.  
**Royal Automobile Club**  
£395 inc. VAT, lunch, reception &  
copies of speaker presentations  
Contact: IBNET™ Global  
Business Association  
UK: 0181-780-6232  
USA: 212-867-7110  
www.global-business.org

## IBNET™

## LONDON

## APRIL 1-2

**Asset Allocation in a**  
Changing World  
The world is changing at a rapid pace.  
Learn how to modify your asset  
allocations to fit the evolving  
environment, keep updated on the latest  
developments, and acquire tools to  
improve allocation decisions. Contact  
AIMR in the USA at:  
Tel: 1 (800) 963-6880 ext. 123  
Fax: 1 (800) 963-3634  
Internet: http://www.aimr.org

## LONDON

## Second International

**Conference on High Frequency**  
**Data in Finance (HFDF-01)**  
To promote discussion of  
theoretical and empirical analysis  
of high frequency (intraday) data  
in finance, 27 selected papers for  
oral presentation and discussions  
by leading scientists.  
• Empirical market microstructure  
• Market liquidity and transaction  
costs  
• Risk management, correlation  
structure and extreme event  
properties  
• High frequency pricing of  
derivatives  
• Econometric models on high-  
frequency data  
Contact: Karin Jost  
Tel: +41 (0) 11 886 48 13  
Fax: +41 (0) 11 822 22 82  
E-mail: info@olew.ch  
Internet: http://www.olew.ch

## Zurich

## APRIL 2 &amp; 3

**Exotic Options (Beyond the**  
**Basics)**  
Covering Option Pricing, Dynamics of  
Options, Knock-Outs & Knock-Ins (also  
reverse), Strategies using Barrier Options,  
Binary Options, Average Rate Options,  
ESOP & VAT 2 Days.  
Contact: TPL Training  
Tel: 0171 600 2123  
Fax: 0171 600 3751  
Email: sales@tpl-training.demon.co.uk

## LONDON

## APRIL 2 &amp; 3

**Securities Settlements**  
• Overview of Securities Products and  
their Derivatives • Systemic Risk in  
Securities Markets • Credit, Market and  
Settlement Risk • Settlement Houses  
Euroclear, Cede • Delivery v Payments  
• Regulatory Issues • Rolling Settlements  
3 DAYS £975+VAT  
Contact: Birch International  
Tel: 0171 628 4112  
Fax: 0171 628 4113  
Email: birch@birch.co.uk

## LONDON

## APRIL 2 &amp; 3

**Managing Client**  
**Relationships**  
• Marketing Strategy • Client Profile  
Criteria, Information Gathering, Product  
Knowledge • Needs Identification  
• Interpersonal Skills • Customer Care  
and quality • Service Differentiation  
• Introducing Specialists • Creating Value,  
Advisory Roles  
3 DAYS £875 + VAT  
Contact: Birch International plc  
Tel: 0171 628 4112  
Fax: 0171 628 4113  
Email: birch@birch.co.uk

## LONDON

## APRIL 15

**Zimbabwe Today**  
Economic Update and Outlook:  
Privatisation Initiatives:  
Investment Opportunities.  
Sponsored by  
Fidelis Africa Capital Group  
In Cooperation With The  
High Commission of the  
Republic of Zimbabwe  
And The  
Zimbabwe Investment Centre  
For information call: 44 171 233 5190

## LONDON

## APRIL 15 - 17

**Managing Client**  
**Relationships**  
• Marketing Strategy • Client Profile  
Criteria, Information Gathering, Product  
Knowledge • Needs Identification  
• Interpersonal Skills • Customer Care  
and quality • Service Differentiation  
• Introducing Specialists • Creating Value,  
Advisory Roles  
3 DAYS £875 + VAT  
Contact: Birch International plc  
Tel: 0171 628 4112  
Fax: 0171 628 4113  
Email: birch@birch.co.uk

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 21-22

**Moving to**  
**Virtual Financial Services**  
Intranet European Forum '98  
Cantor Hall • Canary Wharf • London  
Introduced by Jim Barksdale,  
President and CEO of Netscape  
Communications and featuring  
eminent speakers from the worlds  
of finance and technology, the event  
looks at the latest and future trends  
in financial services technology.  
Contact: TPL Training  
Tel: 0171 600 2123  
Fax: 0171 600 3751  
Email: sales@tpl-training.demon.co.uk

## LONDON

## APRIL 3 &amp; 17 AND MAY 1 &amp; 8

**Equity Futures and Options**  
A one-day training course covering:  
• Pricing, Hedging and Trading  
• Using Futures and Options in Stock  
Portfolio Management • Market  
Timing Techniques • Workshop  
Daily Course Fee: £495  
Centre for Empirical Research in Finance  
Department of Economics and Finance  
Brunel University - Uxbridge Campus  
Contact: Jo Blume  
Tel: (01895) 203326  
Fax: (01895) 203334  
e-mail: Jo.Blume@brunel.ac.uk

## LONDON

## APRIL 6-8

**Introduction to Leasing & Off**  
**Balance Sheet Financing**  
A comprehensive introduction to  
installment credit and asset finance  
products for the corporate market. • Hire  
Purchase and Leasing Facilities • Tax  
Considerations • Accounting Concepts  
and Treatment • Structuring Transactions  
• Documenting Leases  
3 Days £975 + VAT  
Contact: Birch International plc  
Tel: 0171 628 4112 Fax: 0171 628 4113  
Email: birch@birch.co.uk

## LONDON

## APRIL 8 AND JULY 8

**Defence, Threats, Capability,**  
**Cost**  
Implications for Industry: 8 April  
Strategic Defence Review: 8 July  
A two part conference with contributions  
from Government, industry, the armed  
services and the City. Lord Chalfont,  
Paul Beaver and Michael Pettit chair  
major panels on the SDR, Defence  
Industry Integration and the Revolution  
in Military Affairs. Sponsored by  
Coopers & Lybrand and EDS  
Enquiries: Cloydon Ltd  
Tel: 01225 466744 Fax: 01225 42903  
Email: 106703.2270@compuserve.com

## LONDON

## APRIL 15

**Economic Update and Outlook:**  
**Privatisation Initiatives:**  
**Investment Opportunities.**  
Sponsored by  
Fidelis Africa Capital Group  
In Cooperation With The  
High Commission of the  
Republic of Zimbabwe  
And The  
Zimbabwe Investment Centre  
For information call: 44 171 233 5190

## LONDON

## APRIL 15 - 17

**Managing Client**  
**Relationships**  
• Marketing Strategy • Client Profile  
Criteria, Information Gathering, Product  
Knowledge • Needs Identification  
• Interpersonal Skills • Customer Care  
and quality • Service Differentiation  
• Introducing Specialists • Creating Value,  
Advisory Roles  
3 DAYS £875 + VAT  
Contact: Birch International plc  
Tel: 0171 628 4112  
Fax: 0171 628 4113  
Email: birch@birch.co.uk

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## APRIL 20 - JUNE 8

**FT-City Course**  
The FT-City Course, which takes place  
over eight weekly afternoon sessions,  
provides an excellent introduction to the  
workings of the City of London as a  
major financial and trading centre.  
Authoritative speakers will include: Mr  
Paul Duff, JIFFE; Mr Clive Longhurst,  
Association of British Insurers.  
Registration/Enquiries: Sam Pascoe, FT  
Conferences  
Tel: +44 171 896 2120  
Fax: +44 171 896 2696/2697  
Email: sam@pearson-pro.com

## LONDON

## INTERNET WORLD UK SPRING '98 CONFERENCE

**Internet World UK Spring '98** is the UK's leading business solutions event with a totally  
focused business audience. The hard-hitting conference addresses E-Commerce,  
Internet Technology and Marketing & Media (Incorporating Advertising Forum)  
Keynotes from industry leaders such as Digital, Cobham, Cisco,  
BackWeb and Intel, make this the must attend conference for '98.  
If your business needs to maximise the commercial power of the Internet, call  
on 0171 878 0425 or visit our web site: www.internetworld.co.uk

## LONDON

## J.J. Associates

**Specialist Training for Today's Financial Markets**  
ACLESLLI  
Intro to FX/AMM  
3 day £300+VAT - 11a - 12a May 1998  
Bank of Finance  
3 days £350+VAT - 10a - 12a May 1998  
Risks/Commodities  
3 days £450+VAT - 3rd - 5th June 1998  
Combined Bank Office/State and Center  
5 days £900+VAT - 10a - 12a May 1998  
For more information please call:  
0171 248 3000 or Fax: 0171 248 3888

## LONDON

## The IFF Swaps Workshop

• Uses, types and management  
of swaps  
• Pricing  
• Structures and uses of non-  
generic swaps  
• Managing interest rate and  
credit risk  
• Documentation and regulatory  
issues  
IFF offers over 50 Financial  
Training Courses  
For more details call  
Gareth



## THE PROPERTY MARKET



NORMA COHEN

## One piece of a puzzle

Anyone who believes UK tax changes will spur the creation of a liquid property market will be disappointed, says **Norma Cohen**

Are tax breaks for the property industry the key to the creation of a large, publicly traded market in the UK? Will investors only buy property in an easily tradeable form if it carries the same tax treatment as direct ownership?

For many of the UK institutions that invest in property, the answer is a resounding "yes". After all, they can see the fantastic shift in ownership of US property from private to public hands in recent years. The Real Estate Investment Trust structure - which exempts the company from corporation tax provided it pays out 95 per cent of cash earnings to shareholders as dividends - has done much to help investors overcome the illiquidity that affects direct property ownership and that has deterred institutional investment.

The UK property industry has been lobbying for similar tax structures in Britain. Stuart Beevor, managing director of Legal & General Properties, says: "The global markets have taken off and if you want to compete in the global market you have to have a competing product."

But will tax changes create a liquid property

market? Some in the industry remain sceptical. First, Reit legislation was passed in 1990. More than 30 years later the sector had a market capitalisation of about \$10bn. It was not until 1992 that the fantastic growth began, reaching about \$130bn today. Moreover, the UK already has easily tradeable pools of property - property companies. And although they nominally pay the same 31 per cent rate of corporation tax as other companies, they can limit their tax bill by applying development losses against profits.

Capital & Regional, a UK shopping centre developer, reported this week that in 1997 it paid \$650,000 (\$1.1m) in tax on rents of more than \$28m, hardly a sum to deter a tax-averse investor. Mr Martin Barber, chairman, argues that UK property companies could wipe out much more of their tax bill if only shareholders would drop their opposition to the use of convertible loan stock to raise equity capital.

When asked whether tax breaks are a necessity for the creation of a liquid real estate market, Sam Zell, the billionaire real estate developer who runs three of

the largest US Reits, answers: "Maybe." He argues that some of the Reit industry's most abused tax privileges ought to be curbed. "The great fallacy is that tax is the main focus of the Reit investor," he says. "It's only one piece of the puzzle."

Mr Zell says it is the operating efficiencies developed by the largest players that have really attracted equity to US real estate in the past five or six years.

Others argue the real transformation in the US Reit market came about by the creation of Kimco, an industrial Reit, in 1980. Up until then, largely due to legislative requirements, Reits were simply passive owners of property which contracted out portfolio management to third parties. Thus, the fee earner had no equity stake in the business and the equity owner had no managerial control.

A 1986 law changed all that, but it took years for the industry to figure out what to do with the change. Kimco devised a structure allowing itself to use a limited partnership to transfer its assets to a public company without incurring

capital gains tax. After this Reits began to take on the characteristics of other operating companies. No longer were they simply cash flow packages, but manufacturers and service providers that needed to think about inventory, quality control, pricing, marketing and branding, just like Ford or Coca-Cola.

"Tax breaks are nice but they are not absolutely essential," argues Richard Mulley, head of European real estate at Bankers Trust in London. "If they were, the UK market would be littered with limited partnerships," he argues.

Tax transparency, Mr Mulley says, is a red herring. "What are the real issues? Very few companies pay property tax. The real issue is that the industry has got to face up to the disciplines of the market."

Among these, Mr Mulley lists disclosure, transparency, real-time mark to market of assets, and the benchmarking of performance. Moreover, the structure called for by UK institutions - a tax-transparent holding company that pays fees - is precisely the wrong structure for the creation of a liquid property sector.

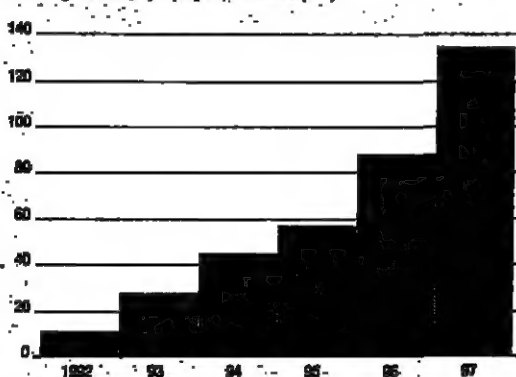
John Carrasfelli, head of European realty at Morgan Stanley, says the most essential ingredient for success is the need to align the interest of property owners with its management. It has to allow the management and the assets to live together, he says. Nevertheless, UK pension fund managers have traditionally been able to invest directly in property without incurring tax and it will be very difficult to wean them off it, Mr Carrasfelli argues.

Clearly, it would be hard to argue tax structure does not make a difference. Mr Zell points out that the biggest investors in Reits have been US mutual funds which must pay dividends to retail investors.

Arguably, given the tax structure of UK property companies, Britain could introduce the tax transparency the industry so badly wants at little cost to taxpayers. But anyone who believes this will spur the immediate creation of a liquid property market will be disappointed.

US Reits: a transformed industry

100 largest Reits, by equity capitalisation (\$bn)

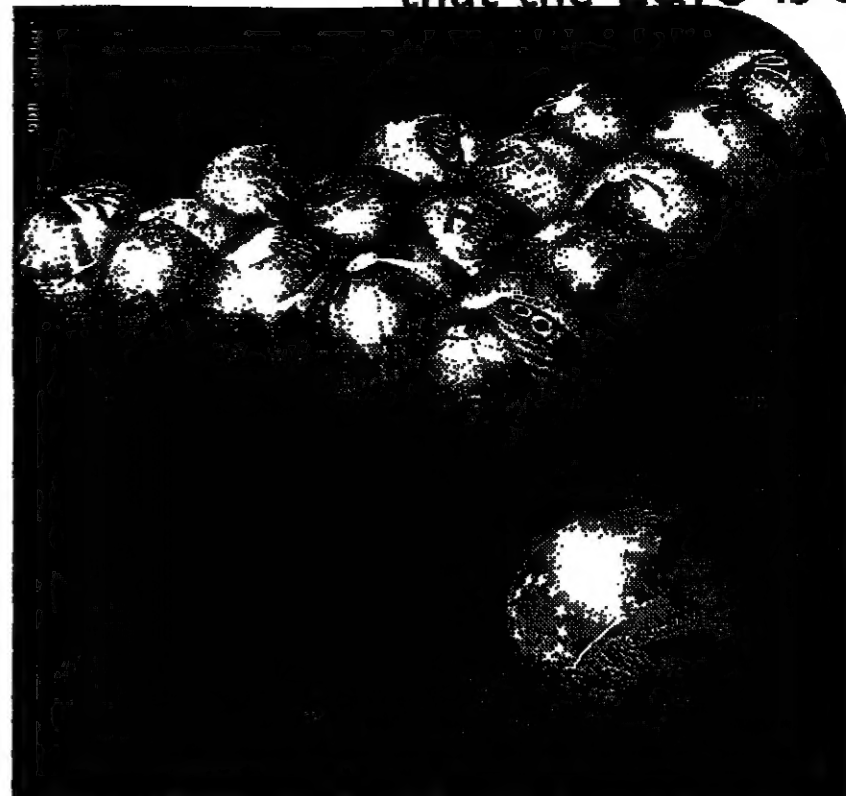


The 10 largest equity Reits

| Company                           | Equity capitalisation (\$bn) |
|-----------------------------------|------------------------------|
| Equity Office Properties Trust    | 7.76                         |
| Equity Residential Properties     | 4.44                         |
| Conquest Real Estate Capital      | 4.43                         |
| Starwood Lodging                  | 3.66                         |
| Greenbelt Group                   | 3.47                         |
| Medwest                           | 3.22                         |
| Vornado Realty Trust              | 3.15                         |
| Public Storage                    | 3.09                         |
| Security Capital Industrial Trust | 2.92                         |
| Spartan Properties                | 2.38                         |

Source: Morgan Stanley Data Watch

## Does your software know that the Euro is coming?



**CoBIT98**  
HANNOVER  
19. - 25. 03. 1998  
Hall 2, Stand C02

The advent of the Euro will cause headaches in many companies. Currency conversions and exchange rates may prove to be too much for some applications and wreak havoc in accounting. You therefore need a powerful solution that will prepare you for tomorrow.

Multicurrency functionality and conversion tools are just two of the ways the SAP® R/3® enterprise solution software addresses these issues. And SAP software is programmed for the future - with year 2000-compliance and Internet-enabled applications paving the way to the next millennium.

After a brief implementation phase, the R/3 applications automate virtually all your processes in production, accounting, sales and human resources, integrating your departments into a single network. This guarantees better information, faster decisions and improved service. In short your company will run like you always wanted it to.

The modular structure of R/3 gives you a solution that is tailored to your needs, and one that can be quickly and easily adapted when requirements change.

R/3 is quite simply the perfect solution for companies of all sizes and from all sectors of industry.

**Intelligent** software solutions that watch out for your bottom line can be found on our Web site at <http://www.sap.com>.

Or call your local SAP office: Austria (1) 2 06 23 Belgium (02) 7 78 05 11 Croatia (01) 6 32 34 60 Czech Republic (02) 6 51 97 01 Denmark (45) 24 30 00 Finland (09) 51 83 30 30 France (1) 55 50 20 00 Germany (01 80) 5 34 54 24 Greece (1) 9 54 02 42 Hungary (1) 4 57 83 33 Italy (0 39) 6 87 91 Netherlands (06 00) 0 22 50 52 Norway (07) 55 94 00 Poland (0 22) 6 06 06 06 Romania (01) 3 12 59 20 Russia/E.L.S. (095) 7 55 90 00 Spain - Portugal (01) 4 54 72 00 Sweden (08) 80 16 00 Switzerland (0 53) 3 44 75 13 Turkey (02 56) 3 91 04 02 UK (01 85) 8 38 29 40

**SAP**  
A Better Return On Information

**Richard Ellis**  
International Property Consultants  
**Cubiertas y MZOV**  
(now NECSO)  
Nordic Business Park  
Turn-key development scheme, Madrid  
Pinar Laboratories headquarters, 10,850 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**THI Leisure**  
Site for the construction of a leisure park  
Arroyo de la Vega, Madrid  
17,615 m²  
**ACQUIRED**

**Richard Ellis**  
International Property Consultants  
**Despa**  
Diagonal Mar Shopping Center  
Barcelona  
88,985 m²  
**ACQUIRED**

**Richard Ellis**  
International Property Consultants  
**Hogem, S.A.**  
(Azor GMF Group)  
Plaza del Colón, 5  
Madrid  
10,773 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**Seisn**  
Miraflores  
Housing development, Polos de Mallorca  
3,343 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**AGF Unión Fénix, Bristol Myers, British Telecom and Geisens Group**  
72 properties  
Located throughout Spain  
**SOLD/LEASED**

**Richard Ellis**  
International Property Consultants  
**Bankers Trust**  
57 properties  
belonging to the Fife property group  
Located throughout Spain  
**VALUED**

**Richard Ellis**  
International Property Consultants  
**AGF Unión Fénix**  
Pº Castellana, 33 and Fortuny, 18  
Madrid  
22,355 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**Neiber**  
8 industrial units  
Madrid and Barcelona  
55,460 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**Rhône-Poulenc Química, S.A.**  
Avenida Diagonal, 464 and Minerva, 4  
Barcelona  
3,919 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**Shell Pension Fund**  
Pº Castellana, 31  
Madrid  
18,233 m²  
**SOLD**

**Richard Ellis**  
International Property Consultants  
**Vallehermoso**  
2,230 properties  
Located throughout Spain  
**VALUED**

**Now you know  
the most visible part  
of our success.**

- Properties with a total value of Ptas. 76,000 million sold.
- Properties with a total value of Ptas. 600,000 million valued.
- 380,000 m² managed.
- 152,000 m² leased.

For yet another year, Richard Ellis remains the leading firm of international property consultants.

**Richard Ellis**  
International Property Consultants

Edificio Torre Picasso, planta 19ª, Plaza Pablo Ruiz Picasso, s/n, 28020 Madrid. Tel: (91) 598 19 00. Fax: (91) 556 96 90. E-mail: [richardellis@ellis.es](mailto:richardellis@ellis.es)  
Edificio Heron Barcelona, Avda. Diagonal, 605, 8ª, 08028 Barcelona. Tel: (93) 444 77 00. Fax: (93) 419 02 85. E-mail: [elliben@mito.ibernet.com](mailto:elliben@mito.ibernet.com)  
Paseo Marítimo, 21, 07014 Palma de Mallorca. Tlf: (971) 456 768. Fax: (971) 456 898. E-mail: [rellisba@mallorcanet.com](mailto:rellisba@mallorcanet.com)

**WORLDWIDE**  
**225**



# INSIDE TRACK

PROFILE SANDY WARNER, CHAIRMAN OF J.P. MORGAN

## A lifelong banker with a tough line in memos

Tracy Corrigan and William Lewis on changes at the Wall Street bank as its chairman faces the biggest challenge of his career

When employees at J.P. Morgan, the prestigious Wall Street bank, saw a memo from their chairman, Sandy Warner, last month, they were shocked. Not so much by Mr Warner's statement that 5 per cent of jobs were to be axed: rumours of cuts had been widespread after a disappointing fourth quarter, exacerbated by the Asian crisis.

The bigger surprise was the candid tone and trenchant content of the memo. Mr Warner, who normally plays his cards close to his chest, was unusually frank about the predicament facing his company. "Our stock is lagging competitors... Our rate of expense growth has exceeded revenue growth in three of the past four years," he complained. "We must now capture further market share and increase business volumes."

Mr Warner's decision to up the stakes came out of the blue. Under his guiding hand, J.P. Morgan has transformed itself in the past dozen or so years from a wholesale commercial bank into a global investment bank, building dominant positions in fixed income, derivatives and fund management, and respectable businesses in equities and mergers and acquisitions.

Crucially, Mr Warner has chosen to do this through organic growth, not through the headline-grabbing mergers that have been the staple of the bank's most successful competitors. But the cost of building the business organically has depressed returns. And the accelerated pace of consolidation in the investment banking industry has upped the ante as market leaders Goldman Sachs, Merrill Lynch and Morgan Stanley Dean Witter are consolidating their position in the bulge bracket of elite global investment banks.

Mr Warner's sharp words may buy some time for the bank, which has become a frequent tar-

get of takeover rumours. "The memo was meant to be pre-emptive," says Art Soter, financial services analyst at Morgan Stanley Dean Witter. "It may keep the wolves at bay for a while."

Still, coming from the head of one of Wall Street's most conservative banks, it is strong stuff. "That is the chief executive saying: 'Hey guys, I want you all to feel the pressure,'" says Walter Gubert, Morgan's global head of investment banking.

The tough tone of the memo surprised competitors and staff at J.P. Morgan, but not close col-

**'If you can't... get into the leadership group, you may have to get out. The firm is now strong enough to pick and choose, shifting and redeploying resources'**

leagues of Mr Warner. They describe his style as open and direct and see the letter as typical of his management style. "He takes a scientific approach to management, lays out the facts and what needs to be done rationally," says one executive who knows him well.

Mr Warner says of J.P. Morgan's position: "If you can't get into the leadership group, you may have to get out. The firm is strong enough to pick and choose, shifting and redeploying resources where opportunities exist."

J.P. Morgan has come a long way. Last year, it ranked fourth in US bond underwriting and seventh in global mergers and acquisitions, according to Securities Data, which tracks deals.

"They were not in the league tables at all 10 years ago," notes Robert Salomon, founder of STI Management in Connecticut. "Now they are running fourth, fifth or sixth. That is a pretty remarkable achievement."

The record, though, has been

patchy. The bank came only 10th in equity underwriting, one of the higher-margin businesses it has been struggling to penetrate.

"They just got ahead of themselves, shouting to the outside world that they were doing better than they actually were," says the head of a rival investment bank. "They would have been better advised to keep a lower profile and not let us see them coming. Now the whole world is hearing about their difficulties and it is clearly destabilising."

Mr Warner, while open about the need to improve J.P. Morgan's financial performance, defends his track record. "If someone had told us 10 years ago that we could have this momentum and this set of capabilities, while retaining our set of values

and a return on equity which never dipped below 13 per cent, I would have taken that in a heartbeat."

Still, his new push towards the bulge bracket represents possibly the biggest challenge of his career. "He is a lifelong Morgan banker, so he is a product of the Morgan culture," says Mr Soter. "But at the same time he is trying to be an agent of change. It is not drastic change, but he wants to make the bank a tougher, more fussy company."

Mr Warner appears confident his bank has what it takes. "On any day, on any transaction, we are competitive with the best in the world."

According to Mr Gubert, Mr Warner "combines a passion for winning, which is contagious, with a very down-to-earth approach. He is a great communicator. He is open. He is an embracer, though not every decision is made through discussion."

Peter Hancock, Morgan's global head of fixed income and credit, believes there will be a "big

change over the next year or so. I'd liken us to an airplane that has climbed up to cruising altitude, and during that climb we have been using a lot of fuel. [But now] efficiency is greatly improved." It is too early to tell whether Mr Warner can propel J.P. Morgan into the select club of elite global investment banks. But few are ruling out his efforts yet. "I think that J.P. Morgan can do it. They can turn it around," says a senior M&A banker at a leading US investment bank.

"The question is: can they continue to build organically, given the rapid process of change elsewhere in the financial services industry? They have to go faster and there are a lot of people who might be interested in a manager. Many have speculated, for instance, on a union with Deutsche Morgan Grenfell, the German investment bank."

Mr Michael Lipper, financial analyst at Lipper Analytical, believes Mr Warner could bring off his ambition. Paradoxically, the end of the bull market, if it comes, could help. "If we have a downturn soon enough or long enough Morgan's financial strength should help them come out of the other side in better shape than many competitors."

But how much time does Mr Warner have? Not much. "We are witnessing the endgame in this sector of global wholesale financial services," says an analyst at a rival bank. He believes there are about 10 contenders. But only two or three will join Goldman Sachs, Merrill Lynch and Morgan Stanley Dean Witter as the "big winners", he says. J.P. Morgan has "a prestigious name and reputation, and a wonderful culture of teamwork and client focus, but time is running short and their market share still doesn't place them in the leadership category."

The stakes are higher than ever, and competition increasingly fierce. "The two leading contenders [for the bulge bracket] are J.P. Morgan and Chase," says Mr Soter. "But they both have big holes to fill." Mr Warner's memo could be the first shovel-full.



### ESSENTIAL GUIDE TO SANDY WARNER

Sandy Warner - who is never called by his given name, Douglas - has spent his career with the House of Morgan. The Cincinnati, Ohio-born banker joined the company in 1968, after graduating from Yale University, and completed the bank's management training programme.

He held a range of jobs before being posted in 1983 to London, where he became general manager in 1988. In 1987, he returned to New York to take charge of corporate finance in the Americas and later

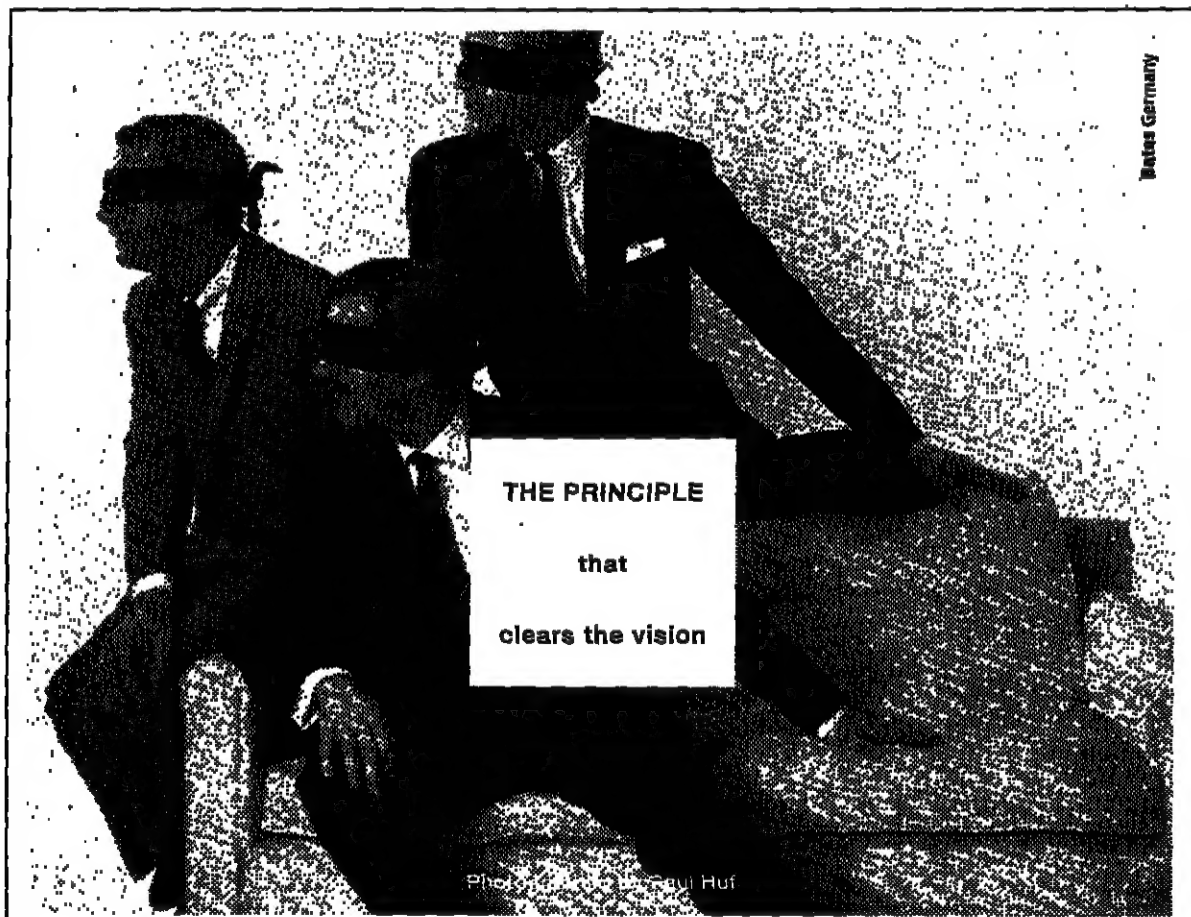
worldwide. He served as president and chief operating officer under Sir Dennis Weatherstone from 1990 and became chairman, president and chief executive officer on January 1, 1995.

One of his first actions was to set up a "house arrest team" of executives, who are holed up in his offices on Wall Street for two days at a time for brain-storming sessions, and not allowed to leave, even for mega-deals.

According to one analyst, Mr

Warner, now 52, is well trained for the job in hand, having spent his entire career watching J.P. Morgan transform itself into a global investment bank.

His positions outside the company include directorships of Anheuser-Busch Companies and General Electric. Mr Warner is also chairman of the board of managers of the Memorial Sloan-Kettering Cancer Center in New York and a trustee of the Pierpont Morgan Library.



THE PRINCIPLE  
that  
clears the vision

■ The euro is on its way. On the first weekend in May 1998, the member states of the European Monetary Union (EMU) will be determined and the European Central Bank established in Frankfurt. Germany's prominence as a financial center is thus destined to further increase. ■ From its Frankfurt headquarters, DG BANK is ideally positioned to help business gain a clear-sighted view of the complex Euromarket. And with a presence in the world's major economic regions, it offers local expertise in a global context. ■ Here too, DG BANK operates by a principle that makes every customer a partner in a singular way. We call it the WIR PRINZIP, to which DG BANK and its staff are wholeheartedly committed. It is rooted in the classic tradition of the cooperative system linking equal business partners. And it has a great future. Because it exemplifies the central idea of partnership: mutual cooperation leads to mutual success.

Head Office: DG BANK, D-60285 Frankfurt am Main, Germany. Offices in: Amsterdam, Atlanta, Bangkok, Beijing, Budapest, Cayman Islands, Hong Kong, Jakarta, Johannesburg, London, Luxembourg, Madrid, Mexico City, Milan, Moscow, Mumbai (Bombay), New York, Paris, Prague, São Paulo, Seoul, Shanghai, Tokyo, Warsaw, Zurich.

DG BANK

### MANAGEMENT STRESS CONTROL

## A hands-on approach

Employees are being offered massage to help them cope with the strains of office life, says Virginia Matthews

SmithKline Beecham, Tesco, Glaxo Wellcome and Railtrack are among the UK companies that are turning to a 700-year-old form of (fully-clothed) Japanese massage, practised on-site by qualified professionals, to knead away the stresses and strains of the working day.

Other organisations, including a number of government departments, offer their employees aromatherapy, reflexology and *chi chi chuan* - an ancient Chinese martial art. In the case of the Foreign Office's Lifestyle Centre, opposite Buckingham Palace this is used to help diffuse the tensions of high-level international networking.

Meanwhile, Coopers & Lybrand believes that it leads the City accountancy pack with a popular, if intensive, two-day physical and psychological assessment programme that invariably leads to suggestions of less work and alcohol and more sleep.

What all these employers share is the belief that the physical and mental well-being of the workforce is too important an issue to be left to employees themselves; one which deserves a place in the office, rather than being relegated to lunchtime or after work.

While a small number of companies expect their staff to pay for any treatments, most will offer subsidies.

Paul Hancock, director of Massageworks - a consultancy specialising in work-based *Anma* massage therapy - believes that a growing number of companies are

overcoming their inhibitions to take what he calls "a more proactive role in their workers' health".

*Anma* massage, closely linked to *shiatsu* - another Japanese technique involving finger pressure - is now becoming a firm favourite in the City. NatWest, KPMG and PR firm Burson Marsteller are among its devotees. Between them, they claim that it combats stress, muscle fatigue, headaches, lack of concentration, anxiety attacks and even insomnia. Practitioners concentrate on more than 60 acupressure points - identical to those used by the acupuncturist's needles - as well as specific trigger points in the neck, shoulders, arms and back.

*Anma* massage involves no oils or perfumes and does not require the patient to remove any clothes, making it "an ideal addition to the working day", according to Mr Hancock, who believes that it can alleviate the sort of stress-related illness that costs British industry dear. Rather than relaxing the patient to the point of sleep, *Anma* is designed to refresh and energise; allowing an employee to return immediately to work.

Mr Hancock notes that while those on the middle rung of the corporate ladder are always keen to have a go at massage, highly paid executives "tend to see the desire for a massage as a form of weakness and are usually the last to attend".

On-site *Anma* massage, which involves sitting in a specially adapted chair, takes between 20 and 30 minutes and costs as little as £140 per day for a maximum of 12 half-hour or 18 20-minute sessions.

"Only a few years ago, employers would laugh and nudge each other when we suggested offering on-site massage," says Mr Hancock. "Today, it is seen as far more mainstream and we ourselves get approached, most recently by BT and Price Waterhouse, both of whom have booked a demonstration."

At Coopers & Lybrand, the attitude to employee health is that "your health is as important to us as it is to you", in the words of partner David Seddon, a psychologist whose role is to look after human resources at the firm.

"Not only do we have an on-site medical doctor, who gives people their pre-holiday jabs and treats them for flu, but we are also taking an active role in making our occupational health strategy stronger and

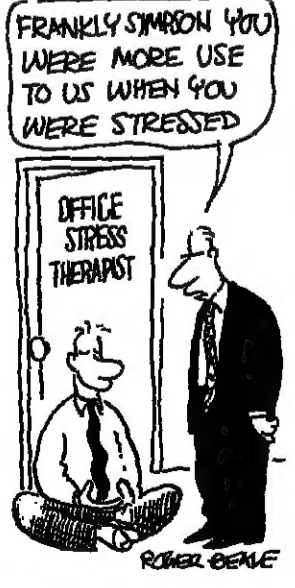
more proactive," he says. Coopers has a one-year waiting list for volunteers prepared to attend a two-day course on physical and mental health. The course is preceded by a full-scale medical, described by Mr Seddon as akin to a pilot's medical, in which the cardiovascular system is reviewed, as well as a psychological analysis.

During the two days, staff are taught how to balance their physical and psychological needs with a new "personal lifestyle strategy". Among the strategies that Coopers have come up with are no weekend work, restricting evening work to two nights a week, taking a one-mile walk every day, reducing alcohol intake and giving up smoking.

"We encourage people to make small changes to their lives, such as drinking two glasses of wine each evening rather than saving it all up for a Friday night binge, as well as taking exercise three times a week rather than wearing themselves out once a month."

While Coopers rather frowns on alternative therapy "we are very science-based," says Mr Seddon, firmly - the Foreign Office is considering adding acupuncture, posture control and class-based yoga to its therapy menu.

"Smoking and drinking too much are very common in the Foreign Office," says the centre's deputy manager, Matthew Wyatt, "and we will basically consider anything that helps them to quit". He adds: "Our most popular sessions are far more basic than acupuncture or massage though; what gets really booked up, by both sexes, is the 'Legs, Bums and Tums' exercise class."



### LATER THIS WEEK

#### TOMORROW

Technology: Vanessa Houlder continues our Machines and Medicine series with a look at implants and new materials.  
Plus: International People; Business and the Law.

#### WEDNESDAY

Technology: The humble pager grows up and adds extra features.  
Management: John Kay asks, what is rational behaviour?  
THURSDAY  
Corporate culture: Second

part of Robert Corzine's series on the transformation of Royal Dutch/Shell.

#### FRIDAY

Management: Doing Business in China - how perseverance can pay off for western companies



Tomorrow: Eugene Ludwig, US currency controller, profiled



Caracas  
sell-off  
hit by  
strike

## MANAGEMENT SOCIETE GENERALE DE SURVEILLANCE

## Testing times for the chief inspector

William Hall on the troubles facing Elisabeth Salina Amorini, chairman of SGS and Switzerland's most successful businesswoman

Elisabeth Salina Amorini, the wealthy chairman of Société Générale de Surveillance, the world's biggest testing and inspection company, has a problem. Her reputation as Switzerland's only really successful businesswoman in a largely male world is under threat - and she has only herself to blame.

In 1989, at the age of 34, she led a shareholder revolt to oust Patrick Rich, the company's British chief executive, and most of the board, including three of Switzerland's most powerful business networks: a former chairman of Union Bank of Switzerland, a former governor of the Swiss National Bank, and the then president of the Swiss Bankers Association.

Mrs Amorini, granddaughter of one of the founders, took over as chairman, scrapped the previous diversification strategy and handed the running of the company to Claude Goldberg, an SGS employee of 45 years standing.

The palace revolution was hailed variously as a welcome awakening of shareholder activism in a country where the big banks had traditionally had an unhealthy level of corporate influence, and a rejuvenation of a 111-year-old company that was in danger of disappearing in its world-class franchise through ill-judged diversifications.

Mrs Amorini started well. She has raised SGS's dividend every year since she took over, boosted operating margins and led the fight to change the Swiss legislation hindering share buy-backs.

But SGS and Mrs Amorini have since lost their star rating. Profits fell in 1997 for the first time in seven years, and SGS was the worst performing share in the Swiss Market Index of Swiss

blue-chips last year and this. A number of things have gone wrong. In the 1990s SGS trebled its fee income and quadrupled its profits. By contrast, since 1990 revenues and staff numbers have grown by just under 60 per cent while net profits are up 26 per cent. More recently, concerns over SGS's sluggish growth have been compounded by questions about the company's stewardship of its most valuable corporate asset: its reputation for honesty and integrity.

SGS, which started by checking the quality and quantity of grain shipments from France, has grown into the most powerful organisation of its kind by offering impartial and independent advice to importers and exporters

**Decisions are taken collegially by all members of the group executive board**

of everything from shoes to nuclear power plants. However, allegations last year that one of its subsidiaries had been named in a Pakistani corruption scandal have raised questions about its business ethics.

SGS was hired to curb customs fraud in Pakistan. But it has since emerged that it paid millions of dollars into offshore bank accounts controlled by the husband of Benazir Bhutto, Pakistan's former prime minister, to secure the contract. Hans Fischer, head of SGS's government contracts business, who had been with the company for over 30 years, has resigned and

Cotecna, the subsidiary at the centre of the Pakistani allegations, has been sold.

SGS confirmed in December that it had paid a Geneva lawyer a substantial commission to "start up" the Pakistani contract and that it had identified "certain irregularities" in its procedures. SGS does not believe that it engaged in any criminal wrongdoing but Mrs Amorini is very conscious of the damage such stories can do to SGS's reputation. Analysts have applauded the swiftness with which she responded to the problem.

However, whatever the rights and wrongs of the Pakistan saga - and SGS's side of the story has not yet been properly heard - it has highlighted weaknesses in SGS's top management, and in particular Mrs Amorini. She was chairman of SGS when it bought Cotecna in 1995 and the fact that it took an investigation in Pakistan to alert SGS to problems in its own management structure raises questions about Mrs Amorini's leadership.

Since she became chairman in 1988, almost all the senior management team have either left or retired. SGS has had two chief executives - the last survived little more than a year - and since 1994 Mrs Amorini has effectively done the job herself, although she does not regard herself as a chief executive.

Rather than have a CEO with rigid lines of reporting, decisions are taken collegially by all members of the group executive board, of which Mrs Amorini is president. "My voice is not higher or lower than the others," she has said. This decentralised management style is designed to encourage a more entrepreneurial spirit among SGS's near 40,000-strong workforce, all but 400 of whom are based in the field.

However, it has its drawbacks. SGS has been slow to sort out the



Amorini: SGS might benefit from a full-time chief executive

underperforming parts of its business, such as US loss adjusting, and it has yet to prove that it can harness the power of its unrivalled network in more than 140 countries to achieve critical mass in faster-growing, higher quality inspection businesses, such as environmental and non-destructive testing.

The problems in Pakistan, combined with the loss of other high-profile government inspection contracts, suggest that SGS has become overly reliant on high-margin but low-quality government contracts in politically sensitive parts of the world. The Philippine government's

decision last week to renew SGS's pre-shipment inspection contract for another year suggests that the Pakistani allegations have not yet seriously tarnished SGS's independent image. Nevertheless, nearly a decade after Mrs Amorini seized power, there is a growing feeling abroad that SGS's recent problems and sluggish growth might benefit from the attention of a full-time chief executive. A group executive board presided over by the company chairman, who also happens to be one of the biggest shareholders, is not the best recipe for the management of what should be a growth business.



TIM JACKSON ON THE WEB

## Spammer in the works

A new US approach to curbing nuisance e-mail raises big issues but makes good sense

To people who think of California as the source of the most weird and wonderful trends of the late 20th century, the news that members of the state's legislature have introduced a bill on "spam" - unsolicited junk e-mail - will come as no surprise. But the bill raises some fundamental questions which should concern every internet user.

At first sight, spam hardly seems a serious enough issue to prompt a grab for the statute book. Many internet users receive half a dozen messages a day, wearily familiar in their offers of get-rich-quick schemes, or their guarantees to reveal the secrets of how to promote a web site successfully. It rarely takes more than a second to identify each message for what it is, and rarely more than a couple of keystrokes to consign it to electronic oblivion.

By comparison, the physical junk that is carried in the mail to our letter-boxes every day is a great deal more inconvenient. I estimate that half my daily posting is rubbish, which requires effort and space to throw away.

Until recently, I believed that spam, like standard junk mail, would wither away as technology improved. Since junk is by definition mail that you do not want to receive and have no intention of responding to, it is also mail that is a waste of money to the sender. I used to think that improving database technology and targeting would make the sending of unsolicited mail less attractive.

The fault in this logic was pointed out by Jason Catlett, founder of Junkbusters.com, a lobby group and web site devoted to combating the rising tide of spam. Dr Catlett, formerly a professor at the University of Sydney and a researcher at AT&T's Bell Labs in New Jersey, argues that the marginal cost of sending junk e-mail is simply too low for the normal rules of economics to apply.

Because a spammer can send out a message to 1m addresses for \$100, (95¢) the response rate can be below one hundredth of 1 per cent - leaving the remaining 99.99 per cent of recipients angry at their wasted time - and still leaving the spammer better off than not sending out the mailing.

This is partly because the market price of e-mail addresses "harvested" from the web or from news groups is so far below the price of targeted names

gathered with the address owner's consent. But it is also because of an economic externality. Since spammers routinely send out mail using false reply addresses, they never suffer the costs of the annoyance they cause.

As a result, a mailing can have a clearly negative effect on the general happiness - causing many times more pain among those who do not want it than pleasure among those who do - without this net loss appearing in the accounts of the sender.

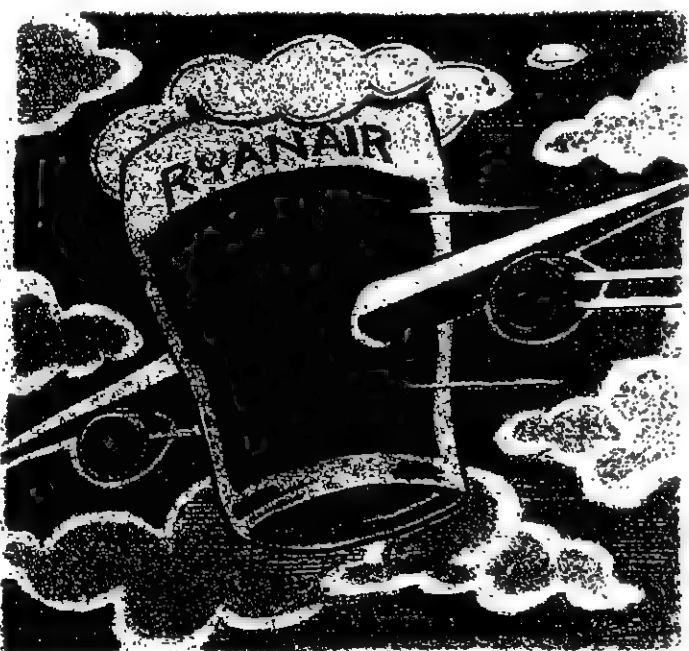
Hence, perhaps, the Californian legislation. Instead of trying to tackle the spammers directly - for instance by requiring them, as earlier attempts at legislation have done, to tag their mail clearly as advertisements, or to provide a real return address on pain of criminal prosecution - the bill attacks the problem from a point of view of civil liability.

It allows internet service providers (ISPs) to establish their own policies on junk mail, and gives them legal backing in suing mailers who contravene these policies. So a spammer who defies the rules of an ISP by using one of its addresses to send outgoing junk, or by sending incoming junk to a list of its subscribers, could be liable for \$50 per violation or up to \$15,000 a day. This may sound excessive. But it is worth remembering that ISPs have suffered measurable economic harm from spammers. Some have found their servers overwhelmed with incoming junk messages, making it impossible to carry normal traffic to and from their customers.

Others have found that the bogus use of addresses on their systems has caused them to be blacklisted so that their honest customers are unable to exchange mail with parts of the outside world. Even AOL, the world's biggest online service, carries a heavy daily overhead of unsolicited traffic that costs it money without bringing in compensating revenue.

Generally, it makes less sense to write special laws for the internet than to apply and extend legislation governing pre-cyber-space activity to the new forms of communication made possible by the net. So California's state government will be wise to ask tough questions about why the new rights and liabilities defined in this bill cannot be achieved using existing legislation. But the approach of using the civil, rather than the criminal, law to do away with this kind of nuisance is one that makes perfect sense.

tim.jackson@pobox.com



## MARKETING FLYING ADS

## Giant billboards in the skies

Kieran Cooke on Ryanair's decision to carry advertising on the outside of its aircraft

Forget "Fly The Flag" - now it is "Fly The Pin". Passengers on Ryanair, the Irish low-fares airline, might be surprised to find they are sitting inside a giant glass of beer.

Ryanair is painting its 20 aircraft into flying billboards. The latest recruit to the airborne advertising market is Kilkenney beer, a brand in the Guinness drinks group. One of Ryanair's B737s has been painted to resemble a pint of Kilkenney, a frothy head of beer covering the aircraft's nose.

"Using our aircraft for corporate advertising is another step in our search for new revenue

sources in advance of the abolition of duty free next year," says Charlie Clifton, Ryanair's director of ground operations.

A small number of aircraft in the US have been branded with corporate messages. Ryanair says it is the first airline in Europe to offer advertisers such a service.

Kilkenney is the third brand to take its message to the skies on a Ryanair jet. Jaguar cars has used Ryanair for advertising since late 1996, with one of the Irish airline's aircraft painted British racing green, the silver company jaguar on its side. News International, the media group, uses Ryanair to advertise two of

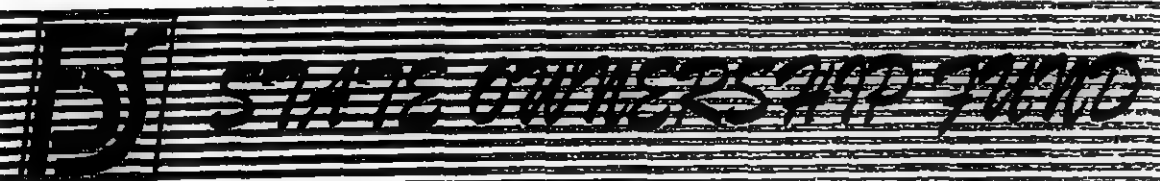
its British newspaper titles. An advertiser pays between £120,000 and £140,000 to place the company colours on a Ryanair aircraft. "I've no doubt that before long all our aircraft will be branded," says Mr Clifton.

Ryanair also plans to offer advertisers display space on aircraft head rests and on staff uniforms. "Such ad revenues are vital in order to maintain our low fares structure," says Mr Clifton.

Ryanair has built its success on "low fares, no frills" flights on routes between Ireland and Britain and is moving into the wider European market. The airline, which carried 5m passengers last year, operates on 26 scheduled routes throughout Europe.

## CONTRACTS &amp; TENDERS

## Invest in Romania!



## Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6, Stavropoleos Street sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997a 67.515 % of the issued share capital of MTS SA Târgu Secuiesc.

- ☐ Registered Office: Târgu Secuiesc, Str. Fabricii nr.7, jud. Covasna.
- ☐ Fiscal Code: R 557010.
- ☐ Registration no. at Commercial Register Office: J147/1991.
- ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 28,885,300 thousand, ROL.
- ☐ Turnover in 1996: 27,547,322 thousand, ROL.
- ☐ Net profit in 1996: 419,313 thousand, ROL.
- ☐ Main scope of activity: metallic construction and metal product industry

Total number of shares at a nominal value of 25,000 ROL each: 1,153,412.

The share ownership structure is as follows:

|   |        |
|---|--------|
| State Ownership Fund                    | 67.515 |
| Financial Investment Company            | 3.094  |
| Share owners through mass privatization | 2.594  |
| Shares assigned through public offer    | 19.757 |
| PAS                                     |        |

The offer for the 67.515% issued share capital, i.e. 788,086 shares is 8,432,730 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, SOF-RDA BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, Str. STAVROPOLOSC, nr.6, phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs. till the deadline 20 March 1998 at a price of 1,100 USD for foreign citizens or legal entities or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal entities.

This sum has to be transferred in advance to the State Ownership Fund accounts: no. 2511.0000000242.3.000008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. 2511.0018.0000607 in ROL, at the Romanian Bank for Development - Bucharest Branch (BRD-SMB) for Romanian investors.

The minimal environmental conditions accepted for MTS SA Târgu Secuiesc are included in the company PRESENTATION FILE.

## THE PRESENTATION FILE will be released on presentation of:

- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 1,957,890 thousand ROL or 252,982 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511.009.809.00313 at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. 2511.0000000242.3.000008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 45 days.

Bidders should submit the PURCHASING OFFER and the documents stipulated in the section C of the PRESENTATION FILE to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 30 March, 1998, 16.00 hrs. (from deadline for submission).

## CONTRACTS &amp; TENDERS

## Invest in Romania!



## Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6, Stavropoleos Street sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997a 50.995 % of the issued share capital of SC FIBREX SA Săvinești.

- ☐ Registered Office: Săvinești, Str. Uzinei nr.1, Jud. Neamț.
- ☐ Fiscal Code: R2614597.
- ☐ Registration no. at Commercial Register Office: J27/00025/1991.
- ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 193,329,300 million, ROL.
- ☐ Turnover in 1996: 25,040,767 million, ROL.
- ☐ Net profit in 1996: 2,954,995 thousand, ROL.
- ☐ Main scope of activity: production and distribution of polyamide fiber

Total number of shares at a nominal value of 25,000 ROL each: 7,733,172.

The share ownership structure is as follows:

|   |        |
|---|--------|
| State Ownership Fund                    | 50.995 |
| Financial Investment Company Moldova    | 37.593 |
| Share owners through mass privatization | 11.407 |
| Shares assigned through public offer    | 0.005  |

The offer for the 50.995% issued share capital, i.e. 340,586 shares is 37,596,676 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, SOF-RDA BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, Str. STAVROPOLOSC, nr.6, phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs. till the deadline 03 April 1998, at a price of 2,750 USD for foreign citizens or legal entities or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal entities.

This sum has to be transferred in advance to the State Ownership Fund accounts: no. 2511.0000000242.3.000008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. 2511.0018.0000607 in ROL, at the Romanian Bank for Development - Bucharest Branch (BRD-SMB) for Romanian investors.

The minimal environmental conditions accepted for SC FIBREX SA Săvinești are included in the company PRESENTATION FILE.

## THE PRESENTATION FILE will be released on presentation of:

- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 8,731,076 million ROL or 1,127,900 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511.009.809.00313 at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. 2511.0000000242.3.000008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 60 days.

Bidders should submit the PURCHASING OFFER and the documents stipulated in the section C of the PRESENTATION FILE to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 13 April, 1998, 16.00 hrs. (from deadline for submission).

troubles



## INSIDE TRACK

## BUSINESS EDUCATION CORPORATE UNIVERSITIES

## Universities spot a business opportunity

Partnership is the way forward for corporate learning, writes John Authers

Record numbers of US employers are forming strategic alliances with business schools to ensure that executive training is relevant and cost-effective.

The trend is revealed in a survey of 100 deans of "corporate" universities - training institutes run by companies for their staff. The survey was sponsored by the AACSB, the accrediting body for US business schools, and carried out by Corporate University Exchange, a New York-based consultancy.

Most importantly, it suggests that deans of conventional business schools should treat the rise of corporate universities as an opportunity rather than a risk.

Joseph Alutto, dean of Ohio State University's business school, one of the largest US public business schools, says: "The potential impact of corporate universities is very broad. There are many different forms which it could take. One is the development of an MBA programme which is company specific. Another is an industry-specific MBA programme, as is often seen in Europe."

This would involve quite a

change in direction for US business schools, which have traditionally followed a path of encouraging generalists.

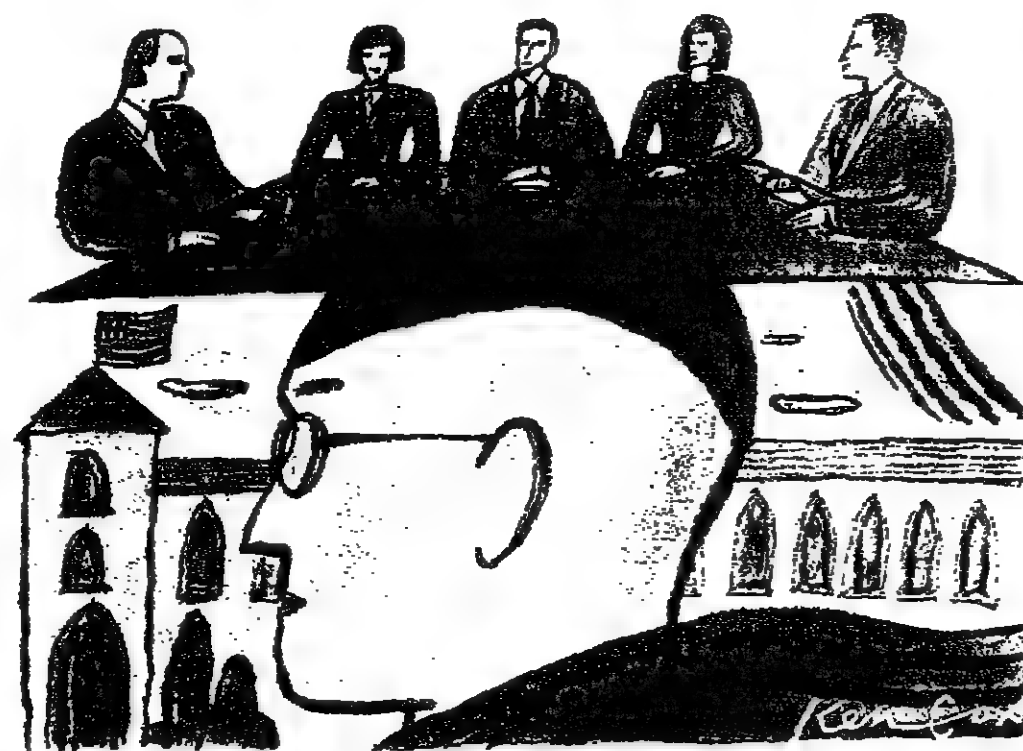
Some corporate universities are attempting to develop degree-awarding powers themselves. But the survey suggests a decisive shift in corporate universities' thinking towards developing joint degree programmes with institutions of higher education, according to Jeanne Meister, chief executive of Corporate University Exchange.

Forty per cent of corporate universities plan to grant degrees in partnership with accredited higher education institutions, mostly in business administration, computer science, engineering and finance.

The interest in alliances includes education establishments at all levels. Almost two thirds of corporate universities have an alliance with an undergraduate college offering three- or four-year courses. By the end of next year, this number is planned to rise to 78 per cent.

A further 32 per cent of the corporate universities surveyed have links with executive education units, with another 16 per cent planning to form such a link within the next two years.

Alliances underpin a new emphasis in companies' policies, according to Ms Meister. "The desire to become a profit centre



for the organisation has surfaced among a growing number of corporate universities". If they are to be self-funded, they need to explore new ventures with outside to supplement their corporate education budget, rather than embark on the much more expensive route of gaining degree-awarding powers in their own right.

The degree route has been followed by Arthur D Little, the consulting firm with its school of management in Boston, but by few others.

The emphasis on profitability has made corporate universities much tougher customers, says Ms Meister.

While they once settled for a nearby school which they knew, important factors listed in this survey included "flexibility and responsiveness", "technology for

learning", and "performance measures". Also high on the corporate deans' list of priorities is a desire that their partner should "share risks".

Therefore, the trend is likely to have quite an impact on the way their conventional allies organise themselves, even if corporate universities represent more of an opportunity than a threat.

Corporate universities' internal practices are also changing. One important trend, which could contain costs, is the experimentation with technology.

The greatest interest is in using corporate intranets for learning programmes; these will account for more than a third of all training delivered by technology at corporate universities.

Beyond corporate intranets, in another two years corporate deans said they were interested

in virtual reality and interactive distance learning as the two mediums that could grow in importance.

Half of the deans questioned have alliances with distance learning vendors, a figure due to rise to 78 per cent. Only 16 per cent have links with internet-based universities, but this is due to rise to 62 per cent.

The survey covered 90 deans from the US, where the concept of corporate universities has so far proved most popular. It also included a further 10 representatives of corporate institutions in South Africa, France, Germany, the Netherlands and Venezuela.

The 1998 Survey of Corporate University Future Directions, was conducted by Corporate University Exchange, 381 Park Avenue South, Suite 713, New York NY 10016. Tel: 212 218 2828.



NEWS FROM CAMPUS

## Never mind the ranking, feel the quality

Money is not everything for MBA graduates who want to join management consultancies. Students at America's top business schools do not necessarily think the most prestigious firms are the best places to work, according to a survey conducted by Kennedy Information, of Fitzwilliam, New Hampshire, which specialises in information on the management consulting and executive search professions.

McKinsey & Co, for example, ranked top in both the prestige and compensation categories but came only 55th out of 80 in the quality of life category. Only one out of the consultancies that ranked in the top 10 for other prestige or compensation also ranked in the top 10 for quality of life - the Boston Consulting Group.

The survey consulted 800 MBA students from 24 schools. Kennedy: [www.kennedyinfo.com](http://www.kennedyinfo.com)

## Thought for food

Paris may not seem the ideal place to study agriculture, but next month the Paris business school Essec will launch an MBA programme for managers in the international agri-food business.

The 11-month course has been developed in conjunction with leading agri-food groups such as Nestlé, Monoprix, Yoplait and Mars. It will begin in September.

In April 1997 Essec became the first business school in Europe to be accredited by the US accreditation body, the AACSB. Essec: [www.essec.fr](http://www.essec.fr)

## Upward and outward

Henley management college, in the UK, is to run a series of free seminars on personal development at its new London campus in Regent's Park. The first, on Monday April 20, will be on stress management. Future seminars will include leadership and survival.

Email: [lyndsey@henleymc.ac.uk](mailto:lyndsey@henleymc.ac.uk)  
● Leadership and survival will be high on the agenda on the Challenging Leadership course run by the Association of MBAs in conjunction with Outward Bound

Professional in the UK. The workshop, from April 17 to 19, will include time in the classroom and time outdoors, although the association insists that the programme has not been designed to challenge levels of fitness. Email: [p.glasson@mba.org.uk](mailto:p.glasson@mba.org.uk)

## Spanish warm-up

To persuade more non-Spanish speaking businesspeople to become involved with Latin American businesses and to study for an MBA, the Instituto Empresa in Madrid will provide free "warm-up" Spanish lessons for new students on its international MBA programme.

The programme is taught in English for the first two terms and then Spanish for the remaining 15 months. The preliminary language courses start in September and the MBA classes in October. Email: [miguel.costa@ie.ucm.es](mailto:miguel.costa@ie.ucm.es)

## Chicago moves

Chicago business school's deputy dean Robin Hogarth is to return to teaching from July. Prof Hogarth is in charge of the full-time MBA programme at Chicago.

His position will be filled by Mark Zmijewski, one of the two other deputy deans at the school who is currently in charge of the part-time MBA programmes. He will be replaced by Gary Eppen, who has been on the faculty for 34 years. Chicago: [www.gsb.uchicago.edu](http://www.gsb.uchicago.edu)

## Thatcher's chair

The Judge Institute of management studies in Cambridge has received final approval to set up a chair of enterprise studies with £2m from the Margaret Thatcher Foundation.

The donation was approved by the university's various bodies without dissent, in spite of concerns that some academics would vote against accepting money from such a controversial UK prime minister. Judge Institute: UK, 01223 339700

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel: 44 171 873 873 Fax: 44 171 873 3950

## POTTED GURUS FREDERICK WINSLOW TAYLOR

## The man who made production fall into line

It is doubtful that any individual could lay claim to the title "father of management". But Frederick Winslow Taylor would be one of the contenders.

He was one of the first to measure effectively human performance in industrial production, so turning supervisors into managers. Whether this was good or not has been debated ever since. From the start Taylor was feted by some and reviled by others for

the way he systematised work and its management.

Taylor, born into a Philadelphia Quaker family, always defended his work by claiming he was trying to improve the working conditions and living standards of fellow employees.

"The principal object of management," he wrote, "should be to secure the maximum prosperity for the employer coupled with the maximum prosperity of each employee." But the idea that he

was helping the worker was not appreciated by many of those reduced to exhaustion hauling pig iron in his experiments designed to test the limits of human output.

It was Principles of Scientific Management, published in 1911, which established Taylor as the founder of "scientific management", the practice of breaking down tasks into their constituent actions that could be measured and organised into

more efficient production processes.

Taylor did not invent the moving assembly line. But Henry Ford's construction of a production line for his Model T Ford in 1913, adopting scientific management techniques, was arguably the most important development in manufacturing of the 20th century.

Does Taylorism exist today? In the sense that work is timed for the purposes of organisation and

incentives, yes. Taylor might well have looked on the expanding use of call centres, where employees are closely monitored and timed, with approval.

Richard Donkin

Further Reading: *Scientific Management*, Harper & Brothers, 1947; *The One Best Way*, Frederick Winslow Taylor and the *Enigma of Efficiency* by Robert Kanigel, Viking, price \$34.95.

Who says a museum dedicated to...  
...the past can't keep pace with...  
...the future. Certainly not NEC. The...  
...revolution in our software and...  
...hardware is making the...  
...use of multimedia a reality today.  
...Augmenting existing displays with...  
...convenient video-on demand gives...  
...greater access to information...  
...to explore this exciting new...  
...dimension of historical study.  
...And the future holds even more...  
...opportunity. As NEC video on...  
...demand software is eventually...  
...embraced by schools and museums...  
...throughout Europe and beyond...  
...people around the world will have...  
...access to this same information.  
...Making multimedia technology a...  
...part of our everyday lives. It's just one...  
...of the ways NEC is helping build the...  
...infrastructure for tomorrow's global...  
...information society.

**NEC Video On Demand.**  
**The Future Of History.**

Visit us at: <http://www.nec-global.com>  
NEC Corporation, Overseas Advertising Division Fax 81-3-3798-6333  
NEC Europe Ltd. Fax 44-181-235-4942

**just imagine**  
**NEC MULTIMEDIA**

**NEC**

**CEBIT 98**  
HANNOVER  
19 - 25. 03. 1998  
INFORMATION TECHNOLOGY  
HALL 12 / NORTH 000  
TELECOMMUNICATIONS  
HALL 17 / NORTH 220

Visit us at: <http://www.nec-global.com>  
NEC Corporation, Overseas Advertising Division Fax 81-3-3798-6333  
NEC Europe Ltd. Fax 44-181-235-4942

**just imagine**  
**NEC MULTIMEDIA**

**NEC**



MANUFACTURING  
LIFT TRUCKSSimple  
case of  
mix and  
match

What has the personal computer industry got to teach the world of lift trucks? The answer is a lot, according to Hans-Peter Schmohl, chairman of Germany's Jungheinrich, the world's fourth biggest lift truck maker.

While the two sectors appear very different, both sets of machines can be regarded as commodities. Computers are used to handle information in the office. Lift trucks do the same with goods in the factory or distribution yard.

Apart from some specialist types, one personal computer looks and feels to most users just like any other. Much the same is true of lift trucks - basic principles of which have changed little over the past 40 years.

What differentiates competing products in both industries is not so much specific manufacturing features but the "service" aspects. These involve software and telephone back-up for computers, and rental terms and spare parts for trucks.

Because of its special characteristics, the computer sector is ahead of most other industries in moving towards "virtual" manufacturing. Much of production is left to outsiders. The biggest computer suppliers concentrate instead on product development, component purchasing, logistics and customer support.

Mr Schmohl says the lift truck industry is on much the same path. It is a highly competitive sector in which about 30 large companies worldwide battle for shares in a market worth some DM30bn (\$10bn) a year.

He believes the day may not be far away when the biggest lift truck makers leave manufacturing to a relatively small number of highly efficient and flexible factories, some of which may be operated by competing lift truck suppliers, or in joint ventures.

The plants would rely on sub-contractors for most of their basic parts. Lift truck companies would compete to assemble heavily-used parts away from the shop floor. These include routine maintenance or even, as is happening in some parts of the industry, supply of drivers hired out daily to go with a rented machine.

"In the next five years we, and



Up and away: Hans-Peter Schmohl predicts more emphasis on being a service company. Picture: Fergus Wille

probably other lift truck companies, will become more of a service company rather than one whose primary business is to make things," says Mr Schmohl.

Jungheinrich, with sales last year of DM2.3bn, is ahead of most other lift truck makers in these trends. It already makes some lift trucks for sale in Europe for Komatsu, its Japanese rival,

**The day may not be far away when the biggest lift truck makers leave manufacturing to a relatively small number of highly efficient and flexible factories**

using the same highly flexible production line in the UK as it uses to make its own trucks.

It has a highly competitive venture in the Czech Republic with Linde, another German company, which is Europe's biggest lift truck maker. Linde is the biggest competitor to Jungheinrich, which is number two in Europe. At present the factory makes only engines, though the partnership could be extended to make other parts or even complete trucks. In the US, where Jungheinrich has a small market share, Mr Schmohl is considering

ways to boost sales beyond shipping from Europe or extending Jungheinrich's small plant in Virginia. He is keen on a joint venture in which an existing US lift truck maker might agree to make Jungheinrich trucks on its own production lines.

Some observers believe Jungheinrich may be interested in such a collaboration with BT Indus-

tries, a big Swedish lift truck maker that has two plants in North America and whose manufacturing philosophy is closer to Jungheinrich's than probably another big lift truck business. BT's US-based Raymond division already makes lift trucks in "spare" parts of its production lines for the US divisions of rivals including Toyota and Mitsubishi Heavy Industries, two big Japanese truck makers.

Mr Schmohl, a manufacturing engineer who has been at the helm of Jungheinrich for two years, reckons his company is in

a better position than most lift truck makers to benefit from the shift to "virtual" manufacturing because of its efforts to revamp its production processes.

It has spent DM100m since 1995 moving its plants in Europe closer to a computer-style assembly process in which much of component production is outsourced to subcontractors. The process has halved the time taken to make a typical product to five weeks, and should lead to a 10 per cent saving in manufacturing costs in two years, equivalent to DM100m a year.

New product development has been reorganised around common "platforms" - in which Jungheinrich trucks to suit a variety of applications are based on a small number of basic structures devised by 350 design engineers in Germany, France and the UK.

Through this process, manufacturing is simplified, making it easier to "mix and match" production of different types of machines, some of which may be sold under another maker's badge - a similar process to what occurs already in parts of the computer industry.

Peter Marsh



RALPH ATKINS  
FILE FROM HANOVER

Trade shows display a  
Prussian flair for fairs

The German enthusiasm for giant commercial exhibitions is as strong as ever, even in an age of electronic communications

From the turret-top restaurant high in the sky, the perimeter of the sprawling exhibition site merges with the horizon. Below, a stream of lorries unloads pallets, partitions and crates into two dozen giant show halls. Plastic wrapping is not yet removed, nor cables connected.

By Thursday, however, preparations should be completed for "Cebit", the biggest information technology exhibition in the world. Almost 7,300 exhibitors will fill the equivalent to 90 football pitches. Some 800,000 visitors will clog the surrounding roads, cram into the city's hotels, and feed from themselves at 42 exhibition on-site restaurants. A thousand public relation boasts will fill journalists' notebooks; countless more business-like handshakes will seal deals or partnerships.

But Cebit - the office, information and telecommunications fair - is only part of Germany's Messe (exhibition) madness. Capacity is being added almost daily to Germany's 21 large-scale exhibition centres, which already have 2.3m sq m of hall space. Visitor numbers rose to 10m last year, 9 per cent more than in 1996. Three out of the four biggest exhibition sites in the world are in Germany.

As Klaus Goehrmann, chairman of Deutsche Messe, the company which runs the Hanover site, says, the German love of industrial fairs is undying - even in an age of electronic communication.

"They like to see, feel, even smell, fully functioning systems. They want proof - to see that the product really works."

The German executive feels at ease in the semi-formal setting of a trade exhibition stand. He likes the direct contact. He likes the handshakes. He likes to look into someone's eyes and ask, "Can I trust him?"

Cebit is the perfect example. It is Disneyworld for corporate information technology experts. The venue has its own high street shops, station and helped. Stands are built up to four stories high, complete with lifts. They have their own conference and negotiating rooms, their own

coffee bars, kitchens and restaurants. And on the top of the plinth are roof-top private dining rooms lit late into the night. "They are like houses. You are at home. You talk and then you go up for a meal," says Prof Goehrmann.

Some companies bring their entire management board, providing an office suite for each member. Deutsche Telekom, the telecommunications giant and this year's largest Cebit exhibitor, has booked 8,000 sq m and will send 600 staff for the week-long fair.

Cebit's sheer size dazzles

**'They like to see, feel, even smell, fully functioning systems. They want to see that the product really works'**

foreign visitors. But an exhibition mentality has been ingrained in Germans since the Middle Ages. The word *Messe* derives from Mass; the Church having provided the first meeting places for commercial traders.

In Hanover the tradition dates from the end of the second world war when Leipzig, the historical centre of the German exhibition industry, fell behind the Iron Curtain. (Leipzig, however, remained an international meeting point during the cold war, providing rare and sometimes illicit dealings between the Communist bloc and the west.)

The first Hanover trade fair was ordered in 1947 by General Brian Robertson, commander-in-chief of the British section of occupied Germany. Its prize exhibits included the world's smallest diesel engine and patented trouser buttons. Cebit was spun-off in 1988 from the main Hanover fair, and is now as big.

Prof Goehrmann says running mega-exhibitions suits Prussian organising instincts: they are a chance to meet large numbers of contacts and clients in a small number of days under one roof (or at least on the same exhibition site). "People think

that exhibitions are about emotions. But they are very efficient. You are forced to negotiate fiercely because you don't have much time," he says.

The real test of Germany's prowess will come when Hanover hosts Expo 2000, the world millennium exposition. It is more of a challenge than it might seem. Germany might be brilliant at displaying machine tools; a successful international celebration of the next 1,000 years will require wit and showbiz - not hitherto regarded as the country's strongest points. Some 188 nations are expected to take part in Expo 2000, the first such world showpiece hosted by Germany. Based on the 1992 Seville exposition, it is likely to attract 40m visitors.

For now, all that is visible of Expo 2000 are the cranes building the additional halls that will be needed. It is not the only development area in the German exhibition industry. Last month Munich opened a new DM2bn (250m) exhibition centre, Düsseldorf, in the industrial heart of north-west Germany, last week announced plans to hold annual wine shows (despite the lack of local grapes).

Can even the Germans continue to fill all the halls? At the Munich opening, Roman Herzog, German president, described the country as the "exhibition centre of the world... You can of course question whether it does not have too many (exhibition centres). But it is not a case of too many cooks spoil the broth. In fact the opposite is the case. Competition stimulates the business."

He would have added that it was a captive market. Industrial Messe madness is hard to escape. Earlier this year, Volke, the German computer retailer, announced it was rebelling and would not have a stand at Cebit 1998. Cebit's focus on trade professionals, rather than private customers, meant that for Volke "it was not the right environment".

But Prof Goehrmann is unworried: the pull of Cebit is so great, the cost of not being there too high. "We have had similar situations in the past, where somebody says 'we won't take part in Cebit'. They get all the newspapers writing about them. But they come back."

Save money  
with 50 phones  
on 1 bill?

Call Orange Direct Business Sales  
0800 731 3330

FTid - The Internet Directory  
Internet Directory

Leading Authorities, Inc.  
A World Class Lecturer for Your Next Conference  
Access 600 of the World's Top Presenters at:  
www.leadingauthorities.com

Leading Authorities, Inc.  
The World's Leading Resource for Lecturers and Entertainers  
(The 1998 Guide, a 100 page Colour Catalogue  
Available Upon Request)  
1st 12th Street NW Ste. 500  
Washington, DC 20005  
Tel: 202/783-0308  
Fax: 202/783-0309  
e-mail: info@leadingauthorities.com

GAM  
For information on GAM's  
web tests and site funds see  
http://www.gam.com  
Email address: info@gam.com  
Tel: +44 1634 632 777

To advertise in this  
sponsorship position  
please contact  
MARLOW WOODS + 44  
171 873 4874

www.machineryworld.com  
Everything on machinery and  
components. Who makes what.  
Agents/Distributors/Maintenance  
wanted. Jobs. Bargains.  
Exhibitions. Products. Check the  
data on  
your company and products.  
Only manufacturers listed.  
FREE  
REGISTRATION

## BUSINESS EDUCATION

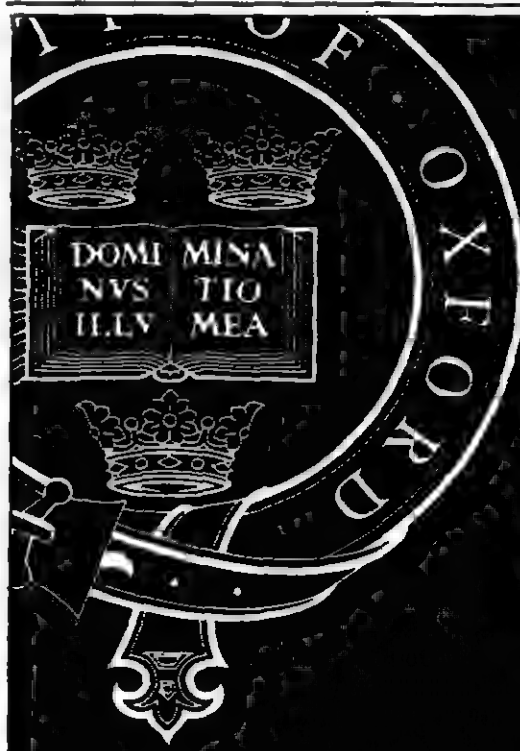
ICMB INTERNATIONAL CENTER  
FOR MONETARY  
AND BANKING STUDIES1998 GENEVA  
EXECUTIVE COURSES IN  
FINANCE

It is vital that today's finance professional keep abreast of the latest developments. For the past decade ICMB has built a solid reputation training executives from over 900 institutions and 64 countries in the latest risk management techniques. A highly renowned international faculty assists participants to build sophisticated skills which enables them to profit from complex challenges in a rapidly changing environment.

- 1 Francis X. Diebold May 18 - 20  
ADVANCED METHODS FOR ESTIMATING AND  
FORECASTING VOLATILITY IN FINANCIAL MARKETS
- 2 M. Musiela and S. Norvaiša May 25 - 29  
MARTINGALE METHODS IN FINANCIAL MODELLING  
AND APPLICATIONS
- 3 Yacine Ait-Sahalia June 8 - 10  
ESTIMATION OF CONTINUOUS TIME INTEREST-RATE  
MODELS
- 4 Kevin Wilson August 17 - 21  
MODERN SECURITY ANALYSIS FOR PRACTITIONERS
- 5 Richard Levich August 24 - 28  
EXCHANGE-RATE AND INTEREST-RATE ECONOMICS  
AND FORECASTING
- 6 Hashem Pesaran Aug. 31 - Sept. 4  
FORECASTING TECHNIQUES IN FINANCIAL MARKETS
- 7 Stephen Schanler September 7 - 11  
BOND PORTFOLIO AND INTEREST-RATE RISK  
MANAGEMENT
- 8 Anthony Neuburger September 14 - 18  
THE USE OF DERIVATIVES IN CORPORATE FINANCE  
AND PORTFOLIO MANAGEMENT
- 9 René Stulz September 21 - 25  
FINANCIAL RISK MANAGEMENT AND DERIVATIVES
- 10 Gordon Robertson Sept. 28 - Oct. 2  
ADVANCED LARGE CORPORATE CREDIT  
ASSESSMENT
- 11 Mike Stanton October 12 - 16  
EQUITY PORTFOLIO MANAGEMENT
- 12 Philippe Jorion October 19 - 23  
GLOBAL ASSET ALLOCATION
- 13 David Cox November 9 - 13  
QUANTITATIVE TECHNIQUES FOR FINANCIAL  
MARKETS
- 14 Sally Norvaiša November 16 - 20  
ADVANCED MATHEMATICS OF DERIVATIVE PRODUCTS

For our detailed brochure, please contact:  
Fabienne Scaglia or Béatrice Candoli  
ICMB  
Av. Blanc 49 - 1202 Geneva, Switzerland  
Tel: +41-22/731 95 55  
Fax: +41-22/731 95 75  
http://www.unige.ch/icmb/  
e-mail: icmb@hel.unige.ch

## BUSINESS EDUCATION

The Oxford  
Strategic  
Leadership  
Programme

Offers a laboratory for leadership, a test-bed for models and ideas which challenges participants to develop their own thinking and skills and then prepares them to put these into action as leaders.



10-15 May; 15-20 November 1998

Return to Dorothy Cooke, Templeton College, Oxford, OX1 3NY, UK

Please send details of the Oxford Strategic Leadership Programme

Name: Address:

Tel: Fax: Email:

Tel: +44 (0)1865 422734 Fax: +44 (0)1865 422501

Email: dorothy.cooke@templeton.oxford.ac.uk

Internet: http://www.templeton.ox.ac.uk

SAID  
BUSINESS  
SCHOOL







## THE ARTS

## OPENINGS

## VIENNA

Starting today, the Palais Harrach will be the venue for an extensive retrospective of Henry Moore. The exhibits include 50 sculptures from all periods of his working life, models for monumental bronzes and 40 drawings. The show runs until August.

## LONDON

Which are Armani and which Marks & Spencer? That will be the challenge facing audiences at the revival of Jonathan

Miller's production of *Così fan tutte* at the Shaftesbury Theatre tomorrow. The Italian designer refused to allow his costumes to be altered for new cast members, leaving the Royal



Opera title choice but to look around for possible alternatives. Barbara Fritoli and Inger Dam-Jensen are the newcomers, and the conductor is Colin Davis (far right). *The Art of Holy Russia*, opening at the Royal Academy of Arts on Thursday, focuses on the



great artistic flowering in Moscow from the 15th to the 17th century. The exhibition, arriving from Frankfurt, includes 50 icons (left) from the leading museums in Moscow. On Thursday David Hare's

latest play, *The Judas Kiss*, has its world premiere at the Playhouse. A treatment of the Oscar Wilde story, it stars Liam Neeson (above), Peter Capaldi, and Tom Hollander. Richard Eyre

directs, for the first time since leaving the National Theatre in October.

## BOLOGNA

The four-act Italian version of Verdi's *Don Carlo* opens at the Teatro Comunale on

Thursday, in a production by Andrei Serban originally staged in Geneva. Eliahu Inbar conducts a cast headed by Vincenzo La Scala, Daniela Dessi, Carlo Colaninno and Paolo Coni.

## GHENT

The first night of the Flanders Opera's new production of *Tristan und Isolde* is on

Wednesday. After three performances in Ghent, it moves to Antwerp on April 1. Silvio Varviso conducts a singing by Willy Decker, and the title roles are sung by Gary Lakes and Liana Delval.

## PARIS

*Art at the Time of the Accursed Kings* promises to be the most dazzling offering of the 1998 Parisian art calendar. Opening at the Grand Palais on Friday, it embraces the era of Philip the Fair and his sons (1285-1328), generally considered one of the most brilliant periods of French Gothic art.

## TURIN

The Royal Ballet gives performances of Ashton's *Cinderella* from tomorrow

through Sunday at the Teatro Regio, with Doreen Russell (below) dancing the title role on Thursday. Next week the company travels to Frankfurt, where the first performance is on March 25.



## MUSIC THE CONDUCTOR SEIJI OZAWA

## Holding the baton in Boston

It remains one of the mysteries of musical America: why are Seiji Ozawa and the Boston Symphony still together after 25 years? The relationship fell into a rut long ago, but Ozawa's 25th anniversary as music director will be celebrated next season with the kind of fanfare usually reserved for politicians and sports personalities.

Ozawa has held on to his post longer than any of the world's active conductors. Given the shuffling at other US orchestras, with three of the "Big Five" looking for a new music director, Boston must consider itself lucky to have someone Ozawa's staying power. But even Ozawa's staunchest admirers could hardly claim he has achieved the mystical union Koussevitzky had with the orchestra, or a relationship comparable to Levine at the Met, Dohnányi at Cleveland and Rattle in Birmingham.

The Boston Symphony's latest tour, beginning in London on Wednesday, gives European audiences a rare opportunity to assess the chemistry of its relationship with Ozawa. Boston has a long tradition of culture, but the BSO is its only big artistic institution. Its music director is a civic personality. Ozawa's appointment in the early 1970s made conservative Bos-

ton look progressive: he was the first classical musician of Japanese ancestry to lead a major western ensemble.

But like several others of his generation, Ozawa has not fulfilled his initial promise. With his big smile, broken English and fluid body-language, he still oozes charisma and does well at the box-office. Technically, the orchestra plays well for him. But his performances lack the relaxed expressivity and emotional commitment which are the key to interpreting the classical and romantic repertoires.

There have been rumbles of unrest between Ozawa and his players for years. The music director of a US orchestra wields a lot of power - especially in Boston, where the job also involves running the Tanglewood Music Center, the BSO's summer home. "Ozawa is a good musician," says a former member of the BSO's management,

"but he's not a good music director. He hasn't motivated that orchestra since the early 1980s. He takes ages to make decisions, he'll leave key positions vacant for years. That's not good for morale. It's impossible to read him - you don't know whether his mind-set is American one day or Japanese the next."

But Ozawa's cultural background is one of the reasons why his power-base in Boston is so strong. Ozawa is a national hero in Japan; as the first Japanese musician to have won international recognition, he is a role model for tens of thousands. This status translates into money. Japanese corporations give millions of dollars each year to the Boston Symphony. NEC finances its tour; Sony coughed up \$30m for Tanglewood's Seiji Ozawa Hall.

That's one reason for keeping Ozawa where he is. In the US, the board - not the orchestra - decides who wields the baton, and the New England blue-stockings who govern the BSO are all Ozawa loyalists.

Ozawa himself is keen to stay. The confluence of three events in recent years - a nasty skiing accident, the death of his brother and his own 60th birthday - caused a sea-change in his life. It forced him to think about his musical legacy.

That explains the recent upheavals at Tanglewood and his musical missionary work in Japan. One of his weaknesses over the years has been his reluctance to assert authority: with his inbred oriental respect for age, he had felt intimidated giving orders to older musicians. He treated Tanglewood's teaching programme like an absentee landlord. His worst period was when his children were growing up: horrified that they were absorbing American culture to the point where they couldn't converse with their grandparents, he had sent them back to Japan. His heart wasn't in Boston.

Over the past five years, all this has changed. Gradually, the generation of orchestra principals he inherited from Munch and Leinsdorf has retired (only one, the timpanist Vic Firth, remains). Ozawa is determined his successor should inherit players of similar quality, and his latest appointments - excellent new horn and flute principals - suggest he is succeeding. The strings have maintained their silvery sound; only the brass fall short of peak quality.

The BSO is also steady itself after a series of management crises. The first occurred 18 months ago when the managing director, Ken Haas, suffered a stroke, resulting in patchwork decision-making all last season. His place has now been filled by the dynamic young Mark Volpe. The problems at Tanglewood go much deeper. The teaching faculty, once the finest in the US, has long been in decline. Since the 1970s Ozawa has had titular responsibility but, partly out of respect for Bernstein, he rarely exercised it. When in 1996 he finally turned his attention to Tanglewood, he didn't like what he saw: the quality of students had fallen, and the involvement of BSO players in the teaching programme was negligible.

When Ozawa tried to change things, the old guard treated him like an interfering busybody. The dispute came to a climax last autumn, when reputable musicians like Leon Fleisher, artistic director of the Tanglewood Music Center, accused him of being "self-serving and duplicitous". There was a lot of blood-letting, much of it in public. What intrigued commentators was not so much the problems at Tanglewood, which outsiders had

long recognised, but the way it acted as a lightning-rod for anti-Ozawa sentiment inside and outside the orchestra.

That contrasts starkly with Ozawa's personality cult in Japan, which he is exploiting to the benefit of his country's musical life. Ozawa's work there suggests his heart is in the right place. Increasingly conscious that his father-figures - Bernstein in the US, Hideo Saito in Japan - left something of permanent value, he wants to do the same. The most obvious example is Saito Kinen, the festival Ozawa founded at Matsumoto in the Japanese Alps. Staffed by an orchestra of former Saito pupils, it has had an incalculable impact on young Japanese musicians. It has also encouraged Ozawa to develop his talent for opera, the one area of his work where he continues to grow as a conductor.

His last remaining mentor is Mstislav Rostropovich, with whom he shares the least known corner of his musical life: over the past six years the two have made short,



Staying power, despite rumbles of unrest: Seiji Ozawa

unpublished visits to remote parts of Japan, to play in schools, hospitals and community halls which have no contact with western classical music. These "caravans" involve minimal planning. Such is their success that the experiment may be repeated in China and Russia.

The bottom line with Ozawa is that, in contrast to many other conductors, the public has not tired of him. His hair may be greying, but he still cuts a youthful, agile figure. Ever since the early 1960s, the US musical press has been reporting on "why Ozawa will leave the BSO". Well, he's still there, and he's acting as if his work has only just begun.

Andrew Clark

Seiji Ozawa conducts the BSO in Mahler's Sixth and Third symphonies on Wednesday and Thursday at London's Royal Festival Hall, followed by concerts in Paris, Vienna, Munich and Athens.

Seiji Ozawa conducts the BSO in Mahler's Sixth and Third symphonies on Wednesday and Thursday at London's Royal Festival Hall, followed by concerts in Paris, Vienna, Munich and Athens.

Seiji Ozawa conducts the BSO in Mahler's Sixth and Third symphonies on Wednesday and Thursday at London's Royal Festival Hall, followed by concerts in Paris, Vienna, Munich and Athens.

## Baldwin takes on the Bard

## NEW YORK THEATRE

## BRENDAN LEMON

*Macbeth*  
Joseph Papp Public Theatre

Broadsheet columnists in New York have been having a field day lately trying to explain the local vogue for Shakespeare's Scottish play, for, following a storm of *Tempests* and a brood of *Hamlets* playgoers have spent the past year coping with a - correct - of *Macbeths*. Whether the play's popularity, as some of these pundits suggest, owes anything to the disloyalty and "vanishing ambition" of Clinton-era politicians is debatable. Over the past months, New York has seen *Macbeth* played as everything except a resident of the White House.

The latest, most high-profile New York *Macbeth* has just opened for a very limited run (to March 28) at the Joseph Papp Public Theatre. Because it features movie stars (Alec Baldwin, Angela Bassett) as its lead couple, and is being produced in the theatre's snug Martinson space, tickets are extraordinarily scarce.

Those lucky enough to gain admission may not come away with any radical new insights into the play, but that, one suspects, is the intent of this production's director, George C. Wolfe. Unlike his last Shakespearean staging, of *The Tempest*, in which Prospero was less Duke of Milan than Duke of the Antilles, the main character here is essentially the one written by the playwright: medieval, Scottish.

Wolfe focuses less on the *Macbeths'* guilt for their many murders - of Duncan, Banquo, Lady Macduff - than on the crimes' tragic inevitability. In this reading, "what's done cannot be undone" assumes signal resonance.

Since Wolfe has placed his actors on a plain, wooden-plank stage, with only a curiously intrusive mirror as embellishment, nothing stands between the actors and the audience's enjoyment except a richly ennobled reading of the text. In the first few scenes it is not clear whether this will be accomplished.

Bassett is physically stunning and has a supple, alto-register voice but an unfor-

tunate habit of trying to e-nun-ci-ate every syllable. Her Lady Macbeth, however, is appropriately driven; there is no questioning the depths of her ambition and her commitment to achieving it.

Baldwin's problem is not with the verse, which he handles with wonderfully clear authority, but with the emotional trajectory of his characterisation. He evinces so little weakness at the outset that it is difficult to believe that his wife would ever have to goad him to action. And he has trouble summoning the requisite emotional resources to convey *Macbeth's* Act V emptiness.

It does not help that he delivers the famous "tomor-

Alec Baldwin, like the production, is never less than watchable

row and tomorrow and tomorrow" soliloquy while seated on his throne, which makes a banal point about the loneliness of exercising power rather than the more profound one about discovering the depths of one's despair.

It may be that Baldwin's range will deepen as performances continue, and even if it does not, the actor, like the production, is never less than direct and watchable.

The characters that really stand out in this production are the Macduffs of Jeffrey Nordling and the Malcolm of Michael Hall. Their excellence is not immediately apparent, but their scene late in the play, when Macduff is informed of the murder of his wife and children and Malcolm urges him to convert his grief to anger, is absolutely wrenching.

Nordling reacts with loud initial wailing to the news and if he had continued in this vein the scene's power would have quickly faded. But as the reality sinks in, Nordling does something wonderful: he becomes very still. He takes a moment for reflection. He shows us that the real horror is not only in hearing that his family has been taken, but in the quiet realisation that when he wakes up tomorrow - and tomorrow and tomorrow - they will still be gone.

## INTERNATIONAL

## Arts Guide

## AMSTERDAM

**CONCERTS**  
Concertgebouw  
Tel: 31-20-675 4411  
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Brahms, Mozart and R. Strauss. With piano soloist Stefan Vladar and soprano Inge Nielsen; Mar 21.

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Oedipus Rex and Psalmensymfonie: Stravinsky double-bill. New, co-production with the Salzburg festival, directed by Peter Sellars. The conductor is Hans Vork, and the cast includes Willard White; Mar 16, 19, 22.

## BALTIMORE

**CONCERTS**  
Joseph Meyerhoff Symphony Hall  
Tel: 410-783 8000  
www.baltimoremsyphony.org  
Baltimore Symphony Orchestra: with percussionist Evelyn Glennie. Programme includes Christopher

Rouse's Der gerettete Alberich, Wagner's Siegfried Idyll and R. Strauss's Also sprach Zarathustra. The conductor is David Zinman; Mar 19, 20.

## BERLIN

**CONCERTS**  
Philharmonie  
Tel: 49-30-2548 8354  
● Berlin Philharmonic Orchestra: conducted by Philippe Herreweghe in Bach's Passion. With soloists including Anne-Sophie von Oter and Matthias Goerne; Mar 17, 18.  
● Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Lutoslawski and Tchaikovsky; Mar 21, 22.

## CHICAGO

**CONCERTS**  
Orchestra Hall  
Tel: 1-312-294-3000  
www.chicagosymphony.org  
● Chicago Symphony Orchestra: conducted by Oliver Knussen in works by Stravinsky, Lieberman and Knussen. With soprano Lucy Shelton and horn soloist Gail Williams; Mar 17.  
● Chicago Symphony Orchestra: conducted by Oliver Knussen in works by Mussorgsky/Stokowski and Knussen. With soprano Rosemary Hardy; Mar 19, 20, 21.

## DUBLIN

**EXHIBITIONS**  
Irish Museum of Modern Art  
Tel: 353-1-612 9900  
Andy Warhol: After the Party, Works 1956-1986. This first major showing in Ireland of Warhol comprises some 100 works, drawn mainly from the

Warhol Museum in Pittsburgh and including early drawings as well as better-known works such as the Marilyn, Jackie and Campbell's Soup can paintings; to Mar 22.

## LISBON

**CONCERTS**  
100 Days Festival, Expo '98  
Portuguese Symphony Orchestra: programme of 20th century works; Main Auditorium, Centro Cultural de Belém; Mar 18.

## LONDON

**CONCERTS**  
Barbican Hall  
Tel: 44-171-638 8891  
● The Royal Opera: Mefistofele, by Boito. Concert performance, conducted by Bernard Haitink. The title role is sung by Samuel Ramey; Mar 16.  
● Boulez Celebrates Carter: Pierre Boulez conducts the London Symphony Orchestra in works by Bartok, Schoenberg, Carter and Debussy. With piano soloist Emmanuel Ax; Mar 22.

Royal Festival Hall  
Tel: 44-171-960 4242  
● City of Birmingham Symphony Orchestra: conducted by Sir Simon Rattle in works by Boulez and Messiaen; Mar 16.  
● Boston Symphony Orchestra: Seiji Ozawa conducts Mahler's Symphony No. 6; Mar 18.  
● Boston Symphony Orchestra: Seiji Ozawa conducts Mahler's Symphony No. 3; Mar 19.

**OPERA**  
English National Opera, London

Coliseum  
Tel: 44-171-632 8300  
● La Bohème: by Puccini. Steven Pinnott's production is revived by Barry Adkins and Frances Moore, and conducted by Emmanuel Joël; Mar 16, 19, 21.  
● The Elks of Love: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Lloyd; Mar 17.

Shaftesbury Theatre  
Tel: 44-171-379 5399  
The Royal Opera: Così fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis; Mar 17, 19, 20, 21.

## MADRID

**CONCERTS**  
Auditorio Nacional  
Tel: 34-1-337 0100  
Elliott Carter 80th Birthday Celebrations: Pierre Boulez conducts the London Symphony Orchestra in works by Ravel, Carter, Stravinsky and Prokofiev; Mar 18.

## MILAN

**OPERA**  
Teatro alla Scala  
Tel: 39-2-88791  
www.teatroalla-scala.it  
Kovachina: by Mussorgsky. Production from the Mariinsky Theatre of St. Petersburg conducted by Alexander Polinichka in a staging by Fedor Lopukhov, with designs by Fedor Fedorovskiy; Mar 18.

## NEW YORK

## CONCERTS

Avery Fisher Hall, Lincoln Center  
Tel: 1-212-875 5030  
New York Philharmonic: conducted by Daniele Gatti in Mozart's Eine kleine Nachtmusik and Mahler's Symphony No. 5; Mar 18, 19, 20, 21.

**EXHIBITIONS**  
Metropolitan Museum of Art  
Tel: 1-212-879 5500  
www.metmuseum.org  
Charles-Honoré Lannuier (1779-1819): around 50 pieces of furniture by the French cabinetmaker who left Paris for New York in 1803, where he built a successful career; from tomorrow until Jun 14.

**OPERA**  
Metropolitan Opera, Lincoln Center  
Tel: 1-212-362 6000  
www.metopera.org  
Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Parmeggiani; Mar 17, 21.

**THEATRE**  
Joseph Papp Public Theatre  
Macbeth: by Shakespeare. George C. Wolfe directs Alec Baldwin and Angela Bassett as Macbeth and Lady Macbeth; to Mar 28.

## PARIS

**CONCERT**  
Châtelet  
Tel: 33-1-4028 2840  
London Symphony Orchestra: conducted by Pierre Boulez; Mar 19.  
Salle Pleyel  
Tel: 33-1-4561 6589  
Orchestra de Paris: conducted by Semyon Bychkov in Mahler's

Symphony No. 2. With soprano Elisabeth Norberg-Schulz, mezzo-soprano Marijana Lipovsek, and Choral led by Arthur Oldham; Mar 18, 19, 21.

**THEATRE**  
des Champs Elysées  
Tel: 33-1-49525050  
● Budapest Festival Orchestra: conducted by Iván Fischer in works by Liszt and Strauss. With piano soloist Cyprien Katsaris; Mar 16.  
● Budapest Festival Orchestra: conducted by Iván Fischer in works by Wagner and Liszt; Mar 17.

## TOKYO

**CONCERT**  
Bunkamura  
Tel: 81-3-3477 9999  
Tokyo Philharmonic Orchestra: conducted by Kazushi Ono in works by Ligeti and R. Strauss. With violin soloist Eiji Ara; Orchard Hall; Mar 20.

## VIENNA

**EXHIBITION**  
Kunstforum der Bank Austria  
Tel: 43-1-533 2266  
From Monet to Picasso: display of 120 works, starting with French Impressionism and Pointillism, and ranging through the Russian avant-garde and German Modernism to 1945; to Jun 28.

## FESTIVAL

Arnold Schoenberg Center  
Tel: 43-1-712 1888  
www.schoenberg.at  
Schoenberg Festival: celebrating the opening of the new Center, the festival, which opened with a concert featuring the Vienna Philharmonic

conducted by Zubin Mehta, continues with a multimedia exhibition, opening today. Other concerts include the Ensemble Wiener Concerto conducted by René Stær (Mar 17); the Klangforum Wien conducted by Sylvain Cambreling (Mar 18), and recitals by Angelika Kirchschlager (Mar 18) and Michael Boriskin (Mar 19).

## WASHINGTON

**CONCERTS**  
Kennedy Center  
Tel: 1-202-467 4600  
National Symphony Orchestra: conducted by Christopher Warren Green in works by Mozart and Haydn, with violinist Daniel Fostor; Concert Hall; Mar 19, 20, 21.

## TV AND RADIO

● **WORLD SERVICE**  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m).  
● **EUROPEAN CABLE AND SATELLITE BUSINESS TV**  
● CNN International  
Monday to Friday, GMT:  
06.30: Moneyline with Lou Dobbs  
13.30: Business Asia  
19.30: World Business Today  
22.00: World Business Today Update  
● **Business/Market Reports:**  
05.07: 06.07: 07.07: 08.20: 09.20: 10.20: 11.20: 11.32: 12.20: 13.20: 14.20.  
At 08.20 Tanya Beckett of FTTV reports live from LUFFE as the London market opens.







## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday March 16 1998

## From the ERM to Emu's joys

Ireland revalues the punt and Greece puts the drachma inside Europe's exchange rate mechanism, an essential step on the path to eventual membership of the single currency. These are two small changes on the periphery of Europe. Yet it is not just Greece and Ireland that are affected. What has happened has implications for others, not least the UK.

The decision by the European Union's monetary committee to revalue the Irish punt by 3 per cent within the ERM came as a surprise. It was presented as a small adjustment on the path to economic and monetary union. Of the 11 currencies widely expected to join Emu, the punt alone has been trading quite far from its central rate. By bringing the central rate closer to the market rate, the committee hope to minimise jolts on the road.

Yet the decision is risky. If one currency can be adjusted, why, it may be asked, should others be immune? As it happens, Ireland has strong domestic reasons for revaluation, as well. With growth running at 8 per cent and the pound sterling soaring against the punt, inflationary pressures have been growing in Ireland. These can only increase, since short-term interest rates will have to fall from the 6.75 per cent of today, as Emu comes closer. This small revaluation will certainly be unpopular with exporters and farmers. But it should curb those pressures at least a little.

While Ireland grapples with over-heating at the end of its long road to Emu, Greece states its desire to be included after just a brief journey. Ireland turned its back on the populism of Charles Haughey several years ago; Greece's rejection of the even more irresponsible policies of Andreas Papandreu is a more recent conversion. But the Greek decision to join the ERM follows strikingly successful stabilisation under a radically altered Pasok. Orthodoxy is triumphant, from one end of Europe to the other.

For Greece as well as Ireland, the move has a domestic benefit. The drachma was widely agreed to be overvalued. But by putting it in the ERM, the government indicates its refusal to tolerate any slide. To reinforce credibility, Costas Simitis, the Greek prime minister, has stated the aim of entering Emu by 2001. Yet whether full convergence is within Greece's grasp so soon is an open question.

Actions by these two small countries might seem to have little importance for countries set to remain on the outside. Yet Greece's decision to join the ERM strengthens the consensus that this is where candidates must wait for two years before entering Emu. For Mr Brown and Mr Blair in London, the reminder is not just that most EU members expect to enter Emu's paradise very soon, but that the UK will almost certainly have to wait in an ERM limbo before being let in from the cold.

## Japan's banks

Last week, the Japanese government missed yet another opportunity to show that it is serious about reform. The occasion was the announcement of which banks would be receiving public money to recapitalise their balance sheets. The allocation leaves the banking system as far as ever from returning to health. Despite the government's hopes, it will not help the Japanese economy escape from recession.

The allocation of the capital injections between the banks is indiscriminate and almost entirely unrelated to the circumstances of individual banks. The already overcapitalised Bank of Tokyo-Mitsubishi has received an unnecessary - and expensive - handout. Worse, some of the banks on the list are probably insolvent, and should not have received any funds at all.

Once again, the Japanese authorities, with their minds focused on short-term considerations such as the financial year-end, have taken the easy option. What they need to do to sort out the financial system is quite clear. The good (ie solvent) banks must be sorted from the bad. The good banks should be allocated a sufficient capital injection to allow them to write down their bad loans. The insolvent should be forced to merge, or be allowed to fail, with sufficient depositor protection insurance in place to

avoid destabilising the economy. This is how the US savings and loan crisis was resolved, and this is the only way to restore Japan's financial system to health.

The capital injections will be equally ineffective in helping the Japanese economy. The government is hoping that the recapitalisation will persuade the banks to overcome their reluctance to lend, so easing the credit crunch. But this is unrealistic.

The banks may have more money to play with. With the problems of overcapacity and bad debts unresolved, they will not be able to lend it out. Indeed, they should not - it is essential that the extra capital is used to facilitate writeoffs of bad debt. Japan's economic problems run far deeper than a simple credit crunch. The reduction in bank lending is probably as much a demand-side phenomenon as a supply-side one. With domestic demand sluggish, there is little demand for new lending. A substantial loosening in fiscal policy is the only way Japan can hope to kickstart its economy.

It is not yet too late to turn this policy around. Over ¥1bn (\$86m) is left in the fund set aside to recapitalise the banks. If it is well used, it could still ease the painful process of banking sector restructuring. If it is used to prop up bankrupt banks, it will just be good money after bad.

## Value in defence

Has the wave of mega-mergers in the US defence industry run its course? That is one inference from the justice department's intervention last week in Lockheed Martin's proposed acquisition of Northrop Grumman. Washington's problems with the deal may simply be part of a tough bargaining process, for it would be surprising if the Pentagon did not want the merger to go through in the end. A deal may be struck to force disposals of radar and electronics businesses.

But the government's reservations do appear to signal an end to consolidation in the industry: there may be smaller deals, but no more large mergers. The Pentagon's endorsement of the justice department's concerns also suggests that, after prodding the industry into restructuring five years ago, it may be having second thoughts about how to get value for money in procurement. The result of the 1993 "last supper", at which the then defence secretary told contractors that he wished their number to shrink, has been dramatic. Top-level "prime contractors" in military aircraft and electronics have been reduced to three: Boeing, Lockheed Martin and Raytheon.

A contraction of capacity was necessary given post-cold war defence cuts. But the new configuration looks disturbingly cosy. It is true that at least two of the

three can compete to be prime contractor for each large weapons programme. But whichever wins, the other two will often be involved as sub-contractors.

The Lockheed/Northrop merger, if allowed intact, would eliminate competition in areas in which technological innovation will be crucial. The Pentagon will need to develop methods, including Chinese walls within companies, which maintain sufficient competition to restrain prices and promote innovation. It is rightly encouraging companies to reduce dependence on defence.

The fact that US defence mergers are over should not deter Europe from addressing its even more serious problems of over-capacity and inefficiency. It is not easy to bring European defence and aerospace companies together through mergers, as they have many customer governments and there are political constraints including state control in France, Italy and Spain.

But unless Europe can forge a corporate structure which delivers value and world-class products, governments will increasingly find it hard not to buy from the American big three. The governments of Britain, Germany and France have asked the large companies to produce a rationalisation plan by the end of this month. They should not tarry long in dealing with the companies' responses.

Green taxation is often looked on as the fiscal equivalent of the philosopher's stone: a magical tool, able to turn the political dross of higher taxes into the unalloyed gold of a nicer environment, more jobs, greater economic efficiency and increased popularity. This sounds too good to be true. And it is.

Green taxes are already popular, particularly in Scandinavia. They are becoming more so elsewhere. Last year, the British government committed itself to increase road fuel duties by 6 per cent a year until 2000.

If Gerhard Schröder, the SPD challenger to Germany's chancellor Helmut Kohl, were to form the next government with the Greens, ecological tax reform could move further ahead in that country also. The SPD, though hesitant itself, may concede the principle as a concession to its putative coalition partner.

When judging the wisdom of such plans, one must remember the purpose of green taxation: it is to ensure that prices facing producers and consumers reflect the marginal environmental costs (and benefits) of their activities. As Professor Ernst von Weizsäcker, a leading German proponent of green taxation, points out, "prices that say little about... actual costs to society are an obstacle to efficient use of resources."

The chief aim of the policy is, in the economists' jargon, to "internalise" an otherwise ignored "externality", that is, to make clear to decision-makers the costs of resources that do not have market prices. Fiscal instruments are attractive in this context because businesses and consumers are then free to decide how to respond. This will lead to greater efficiency and allow more liberty than "command and control" alternatives, such as, say, banning some polluting activities.

If "bads" are to be taxed, they must, obviously, not be subsidised to begin with. Green taxation should therefore start with the withdrawal of subsidies to pollution. The European Union's Common Agricultural Policy has long led to pollution of water. According to the World Bank, phasing out Germany's subsidies to its coal industry could cut global carbon dioxide emissions by 1 per cent.

Along with withdrawal of subsidies should come imposition of taxes. According to the Organisation for Economic Co-operation and Development, these appear effective. Successful examples include the landfill tax in the UK (a tax on depositing waste in landfills), Sweden's tax on sulphur content of fuel and the Danish tax on construction waste. The Danish levy has driven the proportion of construction waste that is recycled to 64 per cent, compared with 15 per cent in Britain. In Sweden low-sulphur diesel fuel is now the only kind available.

The OECD argues that governments should impose more (and heavier) green taxes. A leading candidate is energy. Taxes can also be imposed on road use or provision of parking spaces. On the list of products taxed in at least one country are lubricants, fertilisers, mercury and cadmium batteries and packaging.

All taxes are vulnerable to evasion, including green ones, particularly if set - for good environmental reasons - at punitive



levels. A survey from Tidy Britain, a charity, showed that 21 per cent of local authorities had reported a 20-50 per cent increase in illegal dumping of rubbish in the six months after the landfill tax was introduced in October 1996. Green taxes need to be policed.

When the "bad" in question affects people only in the jurisdiction of the authority imposing the tax, action is relatively simple. Things are far more difficult when pollution spreads across borders. A hard-headed national government will have little reason to act on a global challenge, such as global warming, when its own attempts to limit the pollution will make little difference to its scale.

In such cases, an international regime is needed. One already exists within the EU; another is emerging for global warming. But taxation will still make what has been agreed effective.

So the case for green taxation is good enough in itself. It is not helped by those who make exaggerated claims in favour of, or still worse, advance unsound objections against. Proponents argue, for example, that green taxation will provide a cornucopia of fresh revenue. Opponents complain that green taxation will undermine competitiveness or worsen the plight of the poor. These positions are over-simple, tendentious or wrong.

Receipts from environmental taxes have increased over time, though they were still only about 6 per cent of EU total tax revenue in 1993. Yet there is a fundamental objection against over-emphasising the chances of increased revenue: the more successful tax is at eliminating pollution, the less revenue it will generate. The two goals are in conflict.

Of course, environmental taxes will raise some money. So there is a question about what should be done with the proceeds. The obvious answer is to use them for the government's highest priorities.

**Labour reduced the VAT rate on domestic heating fuel. This was populist posturing**

ity, be it employment, tax-cutting, the environment or something else. There is no overwhelming reason why the advantage of hypothecation is that it increases the transparency of the link between taxes and spending, which may make it politically easier to introduce a high priority form of spending. It has a decisive disadvantage, however: it can lead to inefficient and unstable spending patterns. If raising revenue is a feeble

government to raise money". Otherwise, he notes, the additional taxation may give environmental protection a bad name.

Some proponents meet this objection by linking green taxation to supposedly popular spending. One such approach is to suggest that environmental taxation offers a "double dividend": it can reduce pollution and permit lower taxation of unskilled labour, thereby increasing employment. Revenue from the UK's landfill tax, for example, was used to lower National Insurance contributions (a tax on labour). Yet the scale of the "double dividend" is, at the least, uncertain. And it is foolish to hold needed changes in labour taxation hostage to plans for green taxation.

Forming a direct link between environmental taxes and the cost of labour is an example of "hypothecating" or "earmarking" revenue. Another such link could be between green revenue and environmental spending.

Should green taxes be earmarked for green issues? The advantage of hypothecation is that it increases the transparency of the link between taxes and spending, which may make it politically easier to introduce a high priority form of spending. It has a decisive disadvantage, however: it can lead to inefficient and unstable spending patterns. If raising revenue is a feeble

government to raise money".

argument in favour of green taxation, adverse effects on competitiveness and income distribution are still weaker arguments against it. The alleged disadvantages can be readily dealt with by offsetting changes in either taxation or spending.

Thus, the argument that green taxation will undermine the "competitiveness" of the economy as a whole is mistaken, largely because the notion of overall competitiveness has little, if any, meaning. If the tax reduces an environmental "bad", it will raise prosperity, correctly measured, which is the goal of competitiveness. Any revenue can be used to improve the performance of an economy.

Far more relevant is the fact that green taxes will undermine the profitability of particular industries, particularly the most polluting activities. That is, after all, their purpose. Yet, notwithstanding this logic, the EU's initial proposals for a carbon tax suggested exempting six energy-intensive sectors. The explanation for the absurdity was political. To meet the opposition, it may be necessary to impose taxes incrementally. It makes no sense, however, to avoid taxing the most polluting sectors.

This can be difficult to sell domestically. It is particularly so when the effectiveness of a tax depends on complementary action by others. Gunnar Rabe of the Federation of Swedish Industries points out, for example, that his country's carbon tax was confined to Sweden. "The problem from our companies' point of view is that they don't see their competitors getting the same tax," he complains. The answer is an effective international regime.

While some worry about the impact on competitiveness, others worry about poverty. Poor people, it is claimed, are harder hit by some green taxes than rich people. It is unclear how serious the effect is: the OECD suggests that an EU carbon tax would not have been particularly regressive. Yet the issue is politically salient. In the UK, the Labour party savaged the Conservatives for their attempt to raise value added tax on domestic heating fuel to 17.5 per cent. In last July's Budget, Labour reduced the rate, then at 8 per cent, to 5 per cent.

This was populist posturing. The share of income spent on heating by poor people tends to be higher than by the better off. Nevertheless, the latter spend absolutely more. It is possible therefore to impose higher taxes, if desirable on environmental grounds, while compensating those adversely affected through either taxes or social spending. It is absurd, as in the UK, to tax energy-saving materials at 17.5 per cent, but domestic fuel at 5 per cent.

Taxation of environmental "bads" is a good idea, but as part of an environmental strategy. No government should fail to introduce such taxes for fear of mythical, or readily ameliorated, damage to competitiveness or the poor. Equally, no government should introduce green taxes merely to fill holes in the revenue or let hypothecation distort its spending priorities.

Green taxes are not alchemy. They are a tool of environmental policy, to be introduced, defended and implemented as such.

*\* Environmental Taxes and Green Tax Reform (Paris: OECD, 1997)*

## OBSERVER

## Today, or not Today?

The bankers and bureaucrats rounded up in Japan's "winning and losing" purge have more in common than a penchant for expensive restaurants. The bigger heads to roll are nearly all graduates of Tokyo University, known as *Toda* - Japan's equivalent of Harvard and Yale rolled into one. *Toda* graduates dominate the top echelons of the bureaucracy and business; friendships made at university have helped cement cosy relationships between government and private sector.

But how come the investigation has been pursued with such ruthlessness? Surely the senior ranks of the police force and the public prosecutor's office are also staffed with *Toda* graduates? Well, no. Katsuhiko Kumazaki, head of the financial scandal investigation team, is a graduate of a small private university. A large number of his subordinates went to Kyoto University - *Toda*'s arch rival.

Funny enough, there's talk that Kumazaki may find himself pushing a different pen after the annual bureaucratic reshuffle. Surely the personnel section wouldn't be swayed by *Toda* sympathies?

## Half mast

Bit of a flap over flags in Canada's parliament. The antics began when a representative of the separatist Bloc Québécois complained that the Canadian Olympic delegation

displayed too many red and white Maple Leafs in Nagano. Federalist MPs responded by breaking into a chorus of "O Canada" and waving small Canadian flags.

MPs from the conservative Reform Party have kept the flags on their desks ever since, though it contravenes parliamentary rules. The proud patriots reckon it's a freedom of choice issue, many of them have started sporting Maple Leaf ties and a few are even driving around in red-and-white cars.

As yet there's no sign of a solution to break the deadlock and it will probably fall to the speaker to sort things out. Sounds like time to run a few ideas up the flagpole and see who salutes.

## Will power

A play-maker has emerged in the increasingly bitter contest for the biggest job in world football. Scottish lawyer David Will was never far from the action at Friday's emergency meeting of Fifa world football's governing body - an ill-timed affair culminating in a walk-out by João Havelange, Fifa's soon-to-retire president.

Will may be a director of Scottish second division strugglers Brechin City, but when it comes to football politics he's in the premier league. A partner in a Brechin law firm, north of Dundee, he did well on Friday to prevent hot-headed members of Fifa's executive committee scoring an own goal: they wanted secretary general Sepp Blatter to step down after he refused to say whether he

was in the running for Havelange's job. Forcing out Blatter would have thrown a spanner in the works of preparations for this year's World Cup finals in France.

But even Will couldn't prevent the ensuing row. Havelange, 62, refused to accept Will's watered-down proposal that Blatter should only go if he formally enters the race. He asked Will to draft a counter-proposal enabling Blatter to continue in his post and run for president. When Will refused, Havelange walked out - though not before aiming a few choice words at his old ally.

Will himself is in a tricky position. If Blatter doesn't run for president then the job almost certainly goes to European football supremo Lennart Johansson. And who's in line to get Johansson's job? You guessed it, a certain Scottish lawyer.

## Road to ruin

With its fortunes sagging in opinion polls, Germany's Christian Democratic Union has played the ultimate card - an appeal to autobahn-loving motorists. General secretary Peter Hintze ordered posters outside petrol stations warning that a coalition of Social Democrats and Greens - the most likely government after September's federal elections - could push petrol prices up to DM5 a litre. "Do you want to pay DM300 for a full tank?" asks one poster.

The campaign is meant to embarrass SPD hopeful Gerhard Schröder who's become increasingly exasperated at the antics of the

Greens. Raising petrol prices to DM5 a litre over a decade is Green policy - not SPD. And the environmental party has been losing ground in the opinion polls since their Magdeburg conference which proposed the plan.

The hoo-ha has left Joschka Fischer, the most prominent Green leader, and one of the more moderate, looking off-colour. Before Magdeburg, the 49-year-old was tipped as possible foreign minister in any "red-green" coalition. At the weekend, Fischer said he had no ambition to be a government minister at all. Perhaps he's run out of gas.

## Beat it

Political passions run high in the household of Guillermo Endara. Panama's former president has left his wife Ana Mae after a tiff over rival candidates in forthcoming presidential primaries.

Endara, it seems, is throwing his not inconsiderable weight behind Mireya Moscoso, the president of his Amulfeist party; feisty young Ana Mae is all for the party's rebel candidate Alberto Vallarino. The marital debate must have been rousing. Endara left home in a huff last week complaining of being beaten with a stick by his wife. His frank admission won full praise from Panama's Committee for Mistreated Men.

The latest news is that Ana Mae, who married Endara amid much pomp and flattery in 1990 when he was still president, wants her man back home. But perhaps he'd better wait until March 30 - the day after the primaries.

## Financial Times

## 100 years ago

Canadian Tram Car Companies Canadian tram car companies or - to give them their more imposing designation - street railway companies are much better patronised by the public than similar enterprises in England.

During the year ended 30th September last no less than 32,047,317 passengers were carried by the Montreal Street Railway Company, and the traffic is stated to be steadily increasing.

The citizens of Montreal are evidently following the principles of the hale old gentleman who, when asked how he carried his age so well, replied that his rule through life had been never to walk when he could ride and never to stand when he could sit.

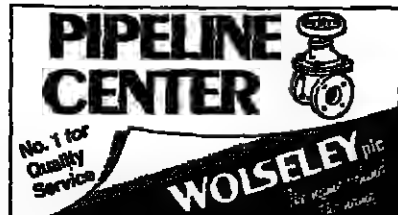
## 50 years ago

Whaling Fears in Norway Oslo, March 15. Norwegian whalers express anxiety about the future of whaling.

Having regard to the greatly improved "catching material", results of the last season are disquietingly poor when compared with pre-war catches.

Whaling is unusually disappointing this year, a director of the Norwegian Whaling Association has said.





# FINANCIAL TIMES

MONDAY MARCH 16 1998

**Bryant Group**  
Invest in Quality  
Homes • Construction  
Tel: 0121 - 711 1212

## THE LEX COLUMN

### Time for a target

The US economy is strong, inflation low and the authority of the Federal Reserve unquestioned. Now is the perfect time to make sure things stay that way.

One possibility would be for the Fed to move from its vague commitment to price stability to an official target range for inflation. The advantages are increased transparency and coherence of monetary policy. Fed chairman Alan Greenspan may be the world's best central banker on most measures, but his cryptic utterances tend to leave investors operating in a fog.

A clear inflation target would institutionalise policy, making it less dependent on the skill of one individual. This would make the central bank more accountable, and free from political interference. This may not be an issue now, but problems have occurred under a weaker Fed.

It might be countered that an inflation target would reduce the Fed's short-term flexibility. But the figure should not be seen as iron-clad, more as a framework aligning monetary policy with a long-term goal.

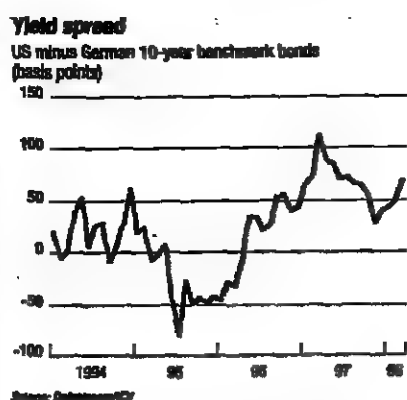
There is another potential problem: missing the target could undermine the central bank's authority. As it would also increase pressure on it to improve performance, that should prove self-correcting.

Given today's favourable backdrop, there is little debate either in Congress or the Fed on this issue. But it is worth pointing out that even now US 10-year bond rates yield 7.5 basis points more than German ones. This suggests that a clearer framework for monetary policy could bring tangible benefits for investors. Mr Greenspan is known to have considered inflation targeting - if not for himself, then perhaps for his successor.

#### Monetary union

The Republic of Ireland's 3 per cent revaluation of the punt is a technical affair. It will do little to rein in an economy stoked up by artificially low interest rates. The danger remains that boom will turn to bust as, within monetary union, the government gives up the tools that might engineer a softer landing.

Greece, on the other hand, must hope that joining the exchange rate mechanism will lead to its sharing some of the benign effects of growth enjoyed by Ireland and the "Club Med" southern European coun-



tries. With the public spending cuts and other reforms announced yesterday, it is padding hard to catch up.

The devalued currency should be easier to defend, taking pressure off interest rates. Improved competitiveness, provided there is essential restructuring, should be a recipe for growth, as it has been in Spain and Portugal.

But, meanwhile, what will the Germans think of another previously unthinkable country getting close to joining the Euro club? This will do nothing to damp their concerns about a soft Euro and a common interest rate higher than their sluggish economy needs.

#### South Korea

The speed of South Korea's retreat from the abyss has been remarkable. Back at Christmas, with foreign exchange hemorrhaging, it stood on the edge of default. The country's benchmark debt issue traded at a delinquent 1,000 basis points over US treasuries.

Now confidence has recovered to the extent that foreign creditor banks have willingly rolled over 95 per cent of the \$22bn in debt Seoul wanted to restructure. Moreover, more than 80 per cent of the debt was rolled over for two- or three-year maturities, not the shortest one-year tranche.

The roll-over does not, of course, provide Korea with new money. But the high take-up rate at least minimises any outflow and provides a platform for a return to the international capital markets. Here the outlook is encouraging: sentiment

towards emerging markets in general has improved recently, while investors are increasingly willing to differentiate between Asian markets. This augurs well for Korea, where President Kim Dae-jung has been pushing all the right buttons. On current evidence, it should be possible to price the planned sovereign issue at 350-400 basis points over treasuries.

Mr Kim, however, can hardly rest on his laurels. He now needs to grasp the domestic debt nettle. With the economy slowing, weaker *chaebol* will be unable to meet interest payments. Bankruptcies will follow, further weakening the banking system. Foreign capital is crucial to a solution, but it will only come when the *chaebol* start to restructure in earnest.

#### Political governance

Do dictatorships or democracies deliver better returns? The traditional view among emerging market investors is that the smack of firm government is best - particularly where a strong leader like Singapore's Lee Kuan Yew or Chile's General Augusto Pinochet implements market-friendly policies.

But the Asian crisis should cause investors to modify this view. Strongman rule can actually make it harder for a country to drink stiff medicine, as Indonesia and Malaysia show. By contrast, South Korea and Thailand, whose governments have changed, are making strenuous efforts to reform their economies. Why is this? Part of the reason is that Indonesia's President Suharto and Malaysia's Mahathir Mohamad simply do not want to sweep away the systems of crony capitalism that serve them so well.

But there are also psychological factors: U-turns typically involve a loss of face. Kim Dae-jung can embark on new policies and hope the blame will stick to his predecessors.

None of this is to suggest democracies guarantee economic success: they can easily produce indecisive government. Nor does it mean dictatorships cannot perform well - as, indeed, Indonesia seemed to be until last year. The big difference is how the systems respond when conditions turn sour. In Indonesia, for example, it may be hard to remove Mr Suharto without a bloodbath. Investors should apply a higher risk premium to dictatorships.

## India's Hindu BJP asked to form coalition government

By Mark Nicholson in New Delhi

Atal Behari Vajpayee, veteran leader of India's Bharatiya Janata Party, will be sworn in as prime minister of a BJP-led coalition government on Thursday, after the Hindu nationalist last night received a presidential invitation to form a government.

The formal request from K.R. Narayanan, the president, ended two weeks of political haggling following the indeterminate outcome of last month's elections.

The BJP-led alliance of more than a dozen regional parties must prove it has a parliamentary majority by March 28, local news agencies reported.

The BJP has promised to lead a government of "broad consensus" and will this week announce a national agenda agreed among its allies as the basis for government. The 18-year-old party, accused by opponents of being religiously divisive, is likely to tone down many of its militant policies based on *Hindutva*, a Hindu-based "cultural nationalism".

Mr Narayanan's decision to invite Mr Vajpayee to form a government followed a renewed pledge of support

for the BJP from an essential but rebellious south Indian alliance partner. This seems to have given the BJP and its allies a narrow majority in the 543-seat lower house of parliament.

Mr Narayanan's move also came after leaders of Congress and the United Front, which formed the ousted coalition government, informed him they could not muster the support to offer a competing claim to govern.

Sonia Gandhi, widow of former Congress leader Rajiv and the party's prime election campaigner, told the president late yesterday that Congress, India's second biggest party, did not "have the numbers" to stake a claim.

Mrs Gandhi was appointed Congress president at the weekend, assuming her first formal party post while becoming the fifth member of the Nehru-Gandhi dynasty to lead India's 112-year-old party.

Mr Vajpayee, the popular and moderate 71-year-old BJP leader, will be sworn in as prime minister for the second time in two years. He headed an ill-fated 13-day administration after India's voters also returned a hung parliament in the

1996 poll. That BJP administration failed to win enough parliamentary support to survive. But the renewed backing yesterday of J Jayalalitha, who commands 27 MPs as leader of the AIADMK party based in Tamil Nadu, allows the BJP to claim the support of 267 members.

Though short of a technical 273-seat majority, this should grant the BJP alliance a slim parliamentary margin, as 12 MPs belonging to the south Indian Telegu Desam Party, which has indicated its neutrality, are expected to abstain.

Ms Jayalalitha had withheld letters of support for the BJP last week, after Mr Narayanan insisted on documentary proof of the BJP alliance's firm support. She accused the BJP of failing to meet several conditions, including ministerial portfolios for her party and allies.

But Ms Jayalalitha, a BJP ally before the elections, finally agreed to back the Hindu nationalists after four days of talks with BJP leaders, saying she had dropped her ministerial demands. She said her party would participate fully in the BJP alliance.

PM in writing, Page 5

## Buffett says US stock prices may not be overvalued after all

By William Lewis in New York

Stock prices should not be viewed as overvalued as long as US companies continue to achieve strong return on equity and stable interest rates are maintained, says Warren Buffett, the US investor known as the Sage of Omaha.

In his annual letter to shareholders in Berkshire Hathaway, the investment company, he said that, if returns on equity "still remain exceptionally high" and interest rates held near recent levels, "there is no reason to think of stocks as generally overvalued", adding: "On the other hand, returns on equity are not a sure thing to remain at, or even near, their present levels."

Previous warnings from Mr Buffett that prices were overvalued have hit the stock market. Through Berkshire Hathaway, the publicly traded investment vehicle, Mr Buffett is one of the largest investors in the US.

In the second of his letters to be

posted on the Internet, Mr Buffett warned that, given the size of Berkshire Hathaway, future investment performance was likely to be hindered. "Our rate of progress in both investments and operations is certain to fall in the future," he said. "At our present size, any performance superiority we achieve will be minor."

The 34.1 per cent increase in the per share book value of Berkshire's class A and B shares was unimpressive given the strong stock market last year. "In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world," Mr Buffett said. "Our appraisal of 1997's performance, then: Quack."

He said: "Prices are high for both businesses and stocks", meaning "we get relatively little in prospective earnings when we commit fresh money". As a result, Berkshire had made some so-called alternative

investments, including acquiring 111.2m ounces of silver which produced a pre-tax gain of \$97.4m in 1997.

In February Mr Buffett announced that Berkshire owned 129.7m ounces of silver, approximately 20 per cent of the world's supply. In his first explanation for taking the stake, he said inflationary expectations played no part in his calculation of silver's value. "In recent years, bullion inventories have fallen materially, and last summer Charlie [Munger, Berkshire's vice-chairman and Mr Buffett's partner] and I concluded that a higher price would be needed to establish equilibrium between supply and demand."

Coca-Cola remains Berkshire's largest holding. Mr Buffett said he believed the death of Roberto Goizueta, the company's chief executive officer from 1981, who died in October, would not harm performance.

Markets Week, Page 24

## CONTENTS

### News

|                    |     |
|--------------------|-----|
| American News      | 6   |
| Asia-Pacific News  | 5   |
| European News      | 2,3 |
| International News | 4   |
| UK News            | 7   |
| Weather            | 18  |

### Features

|                   |       |
|-------------------|-------|
| Guide to the Week | 34    |
| Inside Track      | 10-14 |
| Arts              | 15    |
| Editorials        | 17    |
| Letters           | 18    |
| Observer          | 17    |
| Crossword Puzzle  | 34    |

### Companies & Finance

|                             |       |
|-----------------------------|-------|
| News                        | 20-23 |
| Companies in this issue     | 19    |
| Global Investor             | 19    |
| Market Movers               | 21    |
| International Bonds         | 24    |
| FT Guide to World Laureates | 22    |

### Markets

|                               |       |
|-------------------------------|-------|
| Emerging Markets              | 31    |
| Markets Week                  | 24    |
| New International Bond Issues | 24    |
| Companies Diary               | 24    |
| Money markets                 | 25    |
| Recent Issues, UK             | 24    |
| London share service          | 25,27 |
| Managed funds service         | 28-30 |
| World stock markets           | 31    |
| FT/ESP-A World Indices        | 33    |
| New York Stock Exchange       | 32,33 |
| World markets at a glance     | 24    |
| Economic Diary                | 34    |

### Survey

|                 |                  |
|-----------------|------------------|
| Pharmaceuticals | Separate Section |
|-----------------|------------------|



Fires are destroying vast areas of Brazil's northern Amazon. Page 6

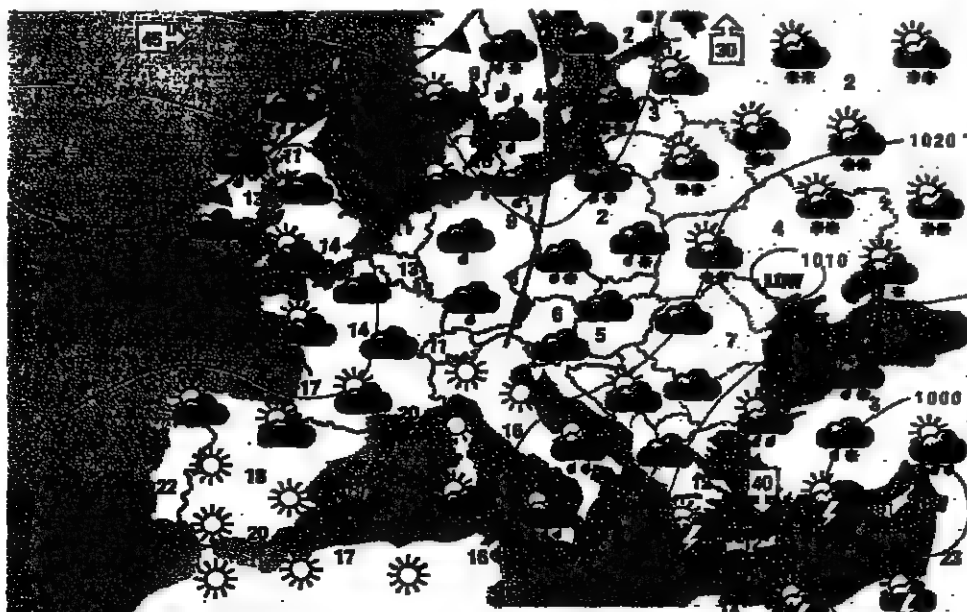
## FT WEATHER GUIDE

### Europe today

Southern Italy and Greece will have heavy showers and thundery downpours. Northern Italy and the western Mediterranean will be fine with sunshine. Northern France will be mainly dry with cloud and some sunny spells. The Low Countries and Germany will have cloud and drizzle. Farther east, it will again be cold with snow flurries, especially across the Baltic States and Finland. South-west Norway and western Denmark will be mostly dry and bright, but eastern Denmark and Sweden will have rain and hill snow at first.

### Five-day forecast

The central and eastern Mediterranean will stay cool and showery. North-west Europe will be mostly fine and dry. Central and eastern Europe will be unsettled, with a renewed surge of cold air moving in from the north on Wednesday and Thursday.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

| TODAY'S TEMPERATURES |         |          |           |        |           |          |        |             |           |         |           |           |         |    |
|----------------------|---------|----------|-----------|--------|-----------|----------|--------|-------------|-----------|---------|-----------|-----------|---------|----|
|                      |         | Cairo    | Shower    | 28     | Pero      | Sun      | 19     | Madrid      | Sun       | 18      | Panama    | Sun       | 26      |    |
|                      |         | Cannes   | Sun       | 24     | Frankfurt | Sun      | 11     | Majorca     | Fair      | 19      | Perth     | Fair      | 26      |    |
|                      |         | Cardiff  | Fair      | 11     | Glasgow   | Drizzle  | 11     | Melba       | Shower    | 14      | Plo       | Fair      | 28      |    |
|                      |         | Coventry | Fair      | 23     | Hilbert   | Cloudy   | 12     | Montevideo  | Cloudy    | 12      | Porto     | Cloudy    | 12      |    |
|                      |         | Chicago  | Fair      | 64     | Olivero   | Rain     | 11     | Manila      | Fair      | 32      | S. Paulo  | Fair      | 17      |    |
|                      |         | Colombo  | Fair      | 6      | Hong Kong | Rain     | 10     | Malibouru   | Fair      | 23      | Seoul     | Cloudy    | 11      |    |
|                      |         | Dallas   | Shower    | 64     | Island    | Fair     | 20     | Mexico City | Shower    | 25      | Singapore | Thunder   | 33      |    |
|                      |         | Danvers  | Fair      | 20     | Osaka     | Fair     | 20     | Shanghai    | Shower    | 25      | Singapore | Thunder   | 33      |    |
| Ala Uthali           | Fair    | 29       | Darmstadt | Fair   | 20        | Shanghai | 21     | Shanghai    | Shower    | 25      | Singapore | Thunder   | 33      |    |
| Algeria              | Sun     | 31       | Delft     | Fair   | 26        | Honolulu | Fair   | 28          | Singapore | Thunder | 33        | Singapore | Thunder | 33 |
| Ancora               | Sun     | 17       | Doha      | Sun    | 28        | London   | Cloudy | 32          | Sydney    | Sun     | 20        | Singapore | Thunder | 33 |
| Atlanta              | Thunder | 12       | Dubai     | Sun    | 28        | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
| Atenas               | Fair    | 16       | Durham    | Cloudy | 22        | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
| B. Aires             | Cloudy  | 12       | Edinburgh | Fair   | 6         | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
| Bangkok              | Fair    | 35       | Chengdu   | Rain   | 6         | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     | 20        | Singapore | Thunder | 33 |
|                      |         |          |           |        |           | Manila   | Cloudy | 2           | Taipei    | Sun     |           |           |         |    |



Invest in SCA?  
Spend a few minutes  
on our home page.

Order our 1997 Annual Report  
on WWW.SCA.SE

WWW.SCA.SE

www.financewise.com

The revolutionary Web  
search engine for  
banking and finance  
professionals

Powered by Wise

INSIDE

Alcoa bids to expand on two fronts

Aluminum Company of America is the world's largest aluminium producer. Just how much bigger does it intend to become? Last week it made a \$3.8bn bid for Alcoa, the number three aluminium producer in the US, and it has teamed up with Canada's Alcan group to bid in the privatisation of the Venezuelan aluminium industry. Page 21

Mendelsohn takes global view

Robert Mendelsohn (left) has wasted little time since becoming chief executive of Royal & Sun Alliance, Britain's biggest insurer. He has orchestrated a shake-up to raise the group's profile in commercial insurance and increase its share of personal financial services. He said: "We're not thinking of ourselves as a UK-based composite insurer any more, but as a global provider of financial services. Page 20

Traders watch drachma and sterling

The Greek drachma joins the European exchange-rate mechanism today and it could prove a volatile debut. Traders will also be watching sterling closely to see if it rises or crashes. UK data expected this week suggest the former. The pound ended last week at its best level since August 1997 above DM3.03 against the D-Mark. Currencies, Page 25

INTERNATIONAL BONDS

Investors cross 'final frontier' Assets denominated in local currencies were seen as the "final frontier" in emerging market investment. This frontier was crossed by a growing number of investors in last year's bull market when trading in local instruments rose 18 per cent. Page 22

EMERGING MARKETS

Rating agencies disagree on Russia Last week, Fitch IBCA credit rating agency confirmed its BB+ long-term foreign currency outlook for Russia. But rival agency Moody's downgraded Russia's sovereign debt rating to Ba3. Page 23

MARKETS THIS WEEK

New York Economic data are expected to show the Asian crisis is beginning to affect the US trade position. Page 24

London

There is little doubt about this week's main event for UK financial markets - tomorrow's Budget. Page 24

Tokyo

Tokyo will be watching for news about more specific government plans to stimulate the economy. Page 24

Frankfurt

Investors have their sights set on 5,000 points for the DAX blue chip index. Page 24

FT GUIDE TO THE WEEK

— full listings Page 34



TELECOMS TALK More than 100 countries will be represented in Geneva today as the World Telecommunication Policy Forum discusses reforming the rates that telecom operators pay each other to connect international calls.

ANNAN TO TOUR MIDDLE EAST Kofi Annan, the United Nations secretary general, will on Wednesday begin a nine-day tour of the Middle East that includes the Palestinian territories.

TRADE ON THE INTERNET The World Trade Organisation on Friday publishes a study on commercial transactions on the internet.

COMPANIES IN THIS ISSUE

|                      |    |                      |    |
|----------------------|----|----------------------|----|
| Airtours             | 30 | Lens Investment Mgmt | 20 |
| Alibank              | 22 | Lorho                | 20 |
| Alcan                | 21 | Magna International  | 23 |
| Alcoa                | 21 | NYSE                 | 28 |
| Alumax               | 21 | Nakomthal            | 21 |
| Ameritech            | 19 | Nuance               | 22 |
| BTR                  | 20 | Omer Sabanci         | 22 |
| Bank Austria         | 22 | Read Elsevier        | 23 |
| Berkshire Hathaway   | 18 | Roche                | 19 |
| OVC Capital Partners | 20 | Ronson               | 19 |
| Colibri              | 19 | Royal & Sun Alliance | 20 |
| Creditanstalt        | 22 | SSGA                 | 20 |
| Eni                  | 23 | Sabco                | 21 |
| GSM                  | 23 | Salpini              | 22 |
| Gallagher            | 20 | Société Générale     | 22 |
| Gulf Air             | 23 | Steyr-Daimler-Puch   | 22 |
| Heineken             | 22 | Stora                | 21 |
| Heleba               | 22 | Swatch               | 22 |
| Hermes Pensions Mgmt | 20 | Swissair             | 22 |
| Imperial Tobacco     | 20 | TCNZ                 | 19 |
| Inter-Act            | 7  | Tomen                | 22 |
| J.Sainsbury          | 7  | Wolters Kluwer       | 23 |

MARKET STATISTICS

|                        |    |                           |       |
|------------------------|----|---------------------------|-------|
| Base lending rates     | 25 | Foreign exchange          | 25    |
| Benchmark Govt bonds   | 25 | London recent issues      | 25    |
| Companies diary        | 24 | London share service      | 25/27 |
| Dividend payments      | 24 | Managed funds service     | 25-30 |
| FT/SE-A World indices  | 31 | Money markets             | 25    |
| FT Gold mines index    | 24 | New Int bond issues       | 24    |
| FT Guide to currencies | 22 | Stock markets at a glance | 23    |

PHARMACEUTICALS ANTI-OBESITY DRUG DELAYED AFTER EXPERTS CHANGE VIEW ON CANCER RISK

Roche suffers new Xenical setback

By William Hall in Zurich

Roche, the Swiss pharmaceutical group, has suffered a fresh setback in its bid to market Xenical, its long-awaited anti-obesity drug, after a US panel of experts changed its view about whether the drug increased the risk of breast cancer.

A Food and Drug Administration advisory panel, which had unanimously recommended Xenical last May, was unable to confirm approval late last Friday after studying

fresh evidence. The panel of independent experts, who advise the FDA on drug applications, was tied five-all over the weight management drug.

Xenical is the first of a class of drugs called fat blockers. By acting through the gastrointestinal tract, rather than brain chemistry, it has been claimed it can cut absorption of fat by about 30 per cent.

In the US, where some 58m obese people spend \$30bn a year on weight loss programmes and diet pills, Roche's Xenical is being billed

as a potential "blockbuster" that could generate sales of up to \$1bn a year.

Its potential importance to Roche, whose sales have flagged over the past couple of years, has been increased following the withdrawal of the two most popular new diet drugs in the US. They altered brain chemicals to trick the body into feeling full but were withdrawn because of worries about heart valve trouble.

Roche's weight loss drug by contrast does not involve the central nervous system. The

US launch of Xenical was postponed last August after the FDA requested more information on possible links with breast cancer. In November Roche resubmitted its application and restated its belief that any connection with breast cancer was a statistical quirk.

Although a number of women who took Xenical in Roche's original studies had breast cancer, the company believes the majority of them had it before the study and, because the drug only works in the intestine, that there is

no biological reason why it should cause cancer. There has been no cancer in rats that have received 730 times the human dose.

The FDA, which does not need to follow the advice of its expert panel, is expected to make a decision on whether Roche can market Xenical by May.

When Roche withdrew its FDA application for Xenical last summer its non-voting shares fell 5 per cent to SF12,600. Last Friday, they closed at SF17,555.

Kiam poised to strike in battle for lighter market

Business gurus shape up to revive ailing brands Ronson and Colibri, reports David Blackwell

Two of the brighter sparks in the business world are about to go head to head in a battle for the cigarette lighter market outside North America.

In the blue corner is Victor Kiam, who at the age of 70 has just become chairman of Ronson. Mr Kiam is famous for liking the Remington electric shaver so much that he bought the company. He wrote about his climb to the top in a book entitled *Going For It*.

In the red corner is Howard Hodgson, 48, ousted as chief executive of Ronson last summer. Last week Mr Hodgson, a 1980s stock market star who built an empire from a family funeral parlour, agreed to become chief executive of Colibri Corporation. His autobiography is called *How to Become Dead Rich*.

Mr Hodgson, who starts work at Colibri today, still owns almost 3 per cent of the

shares in Ronson. He and Christine Pickles, his girlfriend and Ronson's former acting finance director, are suing for nearly \$500,000 (\$25,000) in compensation following their resignations.

Fred Levinger, president of the US parent company of Colibri, last week concluded the purchase of the trademarks, patents and intellectual property rights of the trading subsidiaries of Colibri of London, which was put into liquidation in February.

For the first time in 30 years the Colibri name is owned by a single company. The Ronson brand is under separate ownership in North America.

Mr Levinger, who believes that Colibri has been suffocated from lack of capital for the past two years, is delighted that Mr Hodgson has agreed to build Colibri back into a world brand. "He and I got together, and he decided to accept the



Going for it again: Victor Kiam is already lighting his unending cigarettes with a Ronson. Malcolm Watson

challenge," he said. "It is hard to find people with a knowledge of this business."

Mr Kiam has met Mr Hodgson while he was still at Ronson, thinking there might be some business to be done with his travel accessories company. But all he will say about the Colibri challenge is that he welcomes competition.

He is already lighting his unending cigarettes with a Ronson lighter. "This is a

turbo model, you can't blow it out," he says, blowing fiercely at a roaring flame. "These products have some very good features that no-one knows about - but what a brand!"

Ronson has estimated its total losses last year at \$7.5m. It is planning a 7-for-1 rights issue to raise \$8m, and Mr Kiam is preparing to invest what he calls a sizeable sum.

He feels there are many similarities with Remington,

which was making losses when he led a highly leveraged management buy-out in 1979. Where Remington was fighting for market share with other shaver manufacturers as well as razor blades, Ronson is facing other lighter companies, particularly the disposables.

"I would like to build it to a company that gets the same respect as other companies that I am associated with," he said last week.

Ameritech gets NZ telecoms sale show on the road

By Vincent Boland in London

The largest share offering in the telecommunications sector this year gets under way today when an international roadshow begins for the sale of a 24.9 per cent stake in Telecom Corp of New Zealand, owned by Ameritech of the US.

The offering is the first of an expected rash of big "national" telecommunications issues this year. It will be the first

real test of continuing demand among investors for more shares in the sector after a number of large deals last year.

Ameritech's stake in TCNZ, which it acquired when the New Zealand government privatised its telecommunications monopoly in the early 1990s, is worth about US\$2.2bn. The US group is selling so that it can concentrate on expansion and acquisitions in Europe. Merrill

Lynch and Credit Suisse First Boston, the investment banks, are joint global co-ordinators for the issue. About 80 per cent of the shares are to be sold to international investors. New Zealand and Australian retail investors are also being allocated about 60m of the 480m shares on offer.

The TCNZ transaction, the biggest out of New Zealand, is expected to be completed and fully priced in the first week of

April. TCNZ is listed in New Zealand and New York, and the shares being sold are due to begin trading on April 6.

Usually, the price at which the shares are to be sold will be payable in two instalments. The first payment of NZ\$4.70 a share, due when the issue closes, has already been set, and the final instalment, to be payable after a year, will be set when the transaction closes. However, TCNZ has

pledged to pay a full dividend on the part-paid shares, which analysts estimated would give a yield of about 9 per cent. But the two-tier payment system means that a maximum of 20 per cent of the issue can be sold to US investors because of restrictions on such listings by the Securities & Exchange Commission.

Shares in TCNZ closed on Friday at NZ\$8.55, up 25c, in heavy trading.



PETER MARTIN  
GLOBAL INVESTOR

Chance for gain amid pain

Revaluing the Irish punt on Saturday was the last easy adjustment Europe's peripheral economies will be able to make in the process of monetary union. With bilateral exchange rates for the 11 likely members now effectively locked forever at their present values, the burden of economic adjustment to life under a single monetary policy will fall directly on economic activity.

To macro-economists, this is a worrying outlook. Paul De Grauwe of the University of Leuven in Belgium, writing in the FT last month, compared the potential impact of the euro on economies such as Ireland and Spain with that of the Asian boom and bust. The periphery is growing rapidly, and should have higher interest rates than the slow-growing core. But because Germany and France between them account for more than half the euro-zone's GDP, interest rates for the single currency are likely to be set to reflect their economic conditions rather than those of the smaller countries on the edge of the area. Interest rates will fall in the periphery when they should be rising.

Ireland, Spain and Portugal will boom. Asset prices will rise rapidly. As in Asia, there will be excessive accumulation of private-sector debt. Wage rates will start to converge with those in the higher-cost core. Companies exporting to other euro-zone members will suffer. In time, banks will incur heavy losses from unwise lending. As Edmond Warner and James Montier of

NetWest Markets argue, Europe's hot spots "should be treated with care if investors are to avoid yet another financial bust".

That's certainly a prudent view. But, argues Albert Edwards of Dresdner Kleinwort Benson, there are also significant investment opportunities in what he calls the "Euro-Bubble" economies. Remember, the devastating aspect of the Asian crisis was the currency collapse that followed the realisation that the exchange rate was unsustainable. Inside a currency union such as the euro, this risk does not apply.

Instead, adjustment will take place as wage rates rise and export sectors lose competitive advantage. This will be a slow and painful process. But in the meantime, there will be big profits to be made investing in any company able to take advantage of rising consumer incomes and asset prices. Companies supplying tradeable goods will be squeezed by foreign competition. The trick, says Mr Edwards, is to look for sectors insulated from this: construction, retailing, retail banks and property.

Soaring Dublin property prices tell the story already. And Saturday's EU communiqué showed Ireland grappling with the pressures created by joining the euro. In a splendidly ironic phrase, Europe's finance ministers and central bank governors gave an approving nod to "the intention of the Central Bank of Ireland to continue with its

present monetary policy orientation, which is aimed at achieving price stability".

That intention has a lifespan of no more than nine months since the Irish central bank loses control over monetary policy from the end of the year when the European Central Bank takes over. Saturday's revaluation marked the last exclusively Irish act in the country's brief history of monetary and exchange rate independence.

Saturday's meeting also ensured that those searching for Euro-Bubble stocks now have another candidate: Greece. By joining the exchange rate mechanism, as an explicit precursor to trying to qualify for the euro by 2002, Greece has signalled its enthusiasm for subjecting itself to the same forces.

I should end with a caveat. This style of analysis is essentially national in focus, and will at some point prove outdated. The single currency and the single market will lead to true pan-European businesses, muffling the impact of local developments on corporate profits. Immobile assets, such as property, will boom or bust along with national conditions. So will second-tier stocks, domestically focused. But once the European rationalisation process is complete, big companies will be largely immune.

It may take a generation to reach that peaceful state, however. In the meantime, expect a bumpy ride.

peter.martin@fcom

Congratulations!  
Winners of the PLC Awards 1997:

New Company of the Year:  
**Holmes Place PLC**  
(Equity finance provided by MWEP to fund expansion in November 1996)

International Award:  
**Games Workshop PLC**  
(Equity finance provided by MWEP for the MBO in December 1991)

Entrepreneur of the Year:  
**Chris Swan, Finelist PLC**  
(Equity finance provided by MWEP for the MBO in November 1991)

**NatWest Equity Partners -  
Backing Successful Businesses**

8 Fenchurch Place, London EC3M 4TE  
Telephone: 0171 374 3505 Fax: 0171 374 3442

NatWest Equity Partners



INVESTMENT FUNDS ONE OF THE UK'S LARGEST PENSION FUND MANAGERS JOINS LENS INVESTMENT MANAGEMENT TO TARGET UNDERPERFORMERS

## Hermes links with US governance activists

By William Lewis and Jane Martinson in New York

The first institutionally-backed fund in the UK which will target underperforming companies is launched today in the latest sign that the US trend for corporate governance activists is taking hold in the UK.

Hermes Pensions Management, one of the UK's largest pension fund managers, is teaming up with Lens

Investment Management, the US corporate governance investment group. The groups will launch a fund which will invest in large UK public companies with poor share performances and questionable corporate governance structures.

The fund will aim to press executives at selected underperforming companies to make changes in order to boost the share price and dividend performance.

Hermes says it has already

received initial commitments worth \$100m (\$167m) for the fund, which will be known as the Hermes UK Focus Fund, and that the fund's size could eventually reach \$500m.

Calpers, the largest US public pension fund, recently announced it intended to invest in UK Active Value, an activist management group based in the UK, but Hermes is the first UK institution to launch an activist fund.

The Focus Fund will be managed by a new company, Hermes Lens Asset Management, marketed to UK and US institutions and launched in the summer. HLAM will be 75 per cent owned by Hermes.

"The objective is to stimulate change in companies in the top 350 with hidden shareholder value," said Peter Butler, corporate focus director of Hermes and chief executive of the new company.

At any one time, the fund is likely to own up to 10 per cent of the shares of approximately 10 companies.

In an interview, Robert Monks, chairman of Lens Investment Management, said companies on the fund's hit list could include BICC and Rolls Royce, where performance had suffered in recent years.

In the US, Lens Investment Management operates an active value investing fund which has targeted

companies including Eastman Kodak, Sears Roebuck and Waste Management International. Tactics employed by Lens include calling for management departures and joining the boards of recalcitrant companies to effect change.

Over the past five years the Lens fund has achieved a nominal compound rate of return of 26 per cent to July 31 last year, compared with a 21 per cent return for the S&P 500.

## Memo may hit tobacco shares

By Neil Simpson

Shares in Gallaher and Imperial Tobacco, two of Britain's biggest cigarette companies, could come under pressure today after weekend revelations that Gallaher executives knew of the dangers of cancer from smoking years before acknowledging cigarettes could damage smokers' health.

The findings, in the form of a confidential 1970 internal memo from Gallaher's general manager of research to its managing director, could weaken the position of the company in the court action being brought by 53 British lung cancer victims.

After the failure of an attempt to derail the case on procedural grounds, the action will gather pace on April 3, when a judge will be named and a timetable set out. The trial is expected to start next year.

In the confidential memo, Gallaher's research manager reviews two experiments using beagles to assess the potential carcinogenic effects of smoking. He concludes the research "would appear to remove the controversy regarding the causation of the majority of human lung cancers". The work done "proves beyond all reasonable doubt the causation of lung cancer by smoke".

Clive Bates, director of Action on Smoking and Health, an anti-smoking lobby, said: "The evasions and waffle words on smoking and lung cancer have to stop. It really is disgraceful, especially now their own documents reveal they have known with absolute clarity since 1970 that smoking causes lung cancer."

Gallaher was not available for comment. Imperial Tobacco said: "Any document like this has to be seen in the context of the many, many documents on the subject. One would need to look at all of them to put things into context."

A senior cigarette industry spokesman said anti-smoking lobbies seized on any damaging material on smoking, but ignored potential contradictory evidence.

Gallaher, after announcing profits of \$337.2m (\$501.9m) for last year, said last week its legal advisers believed it had "meritorious defences" to the actions and claims against it.

"Gallaher believes that the pending actions will not have a material adverse effect upon the results of the operations, the cash flow or financial condition of the group," it said. But the group said there could be no assurance it would not incur damages, or that any damages would not be material.

## Global presence makes commercial logic

Christopher Adams profiles the chief of Royal &amp; Sun Alliance

Robert Mendelsohn has wasted little time since taking over as chief executive of Royal & Sun Alliance in December.

Sensitive to criticism that Britain's biggest insurer lacked direction under the dual leadership of Richard Gamble and Roger Taylor, he has orchestrated a shake-up designed to raise the group's profile in commercial insurance and boost its share of personal financial services.

Decision-making will be devolved to overseas branches and the group has been reorganised into three time zones - North America, Europe and Asia - each with its own locally-based boss. Executive directors have also been appointed with responsibility for investment management and customer service.

"This is about psychological change," says US-born Mr Mendelsohn.

"We're not thinking of ourselves as a UK-based composite insurer any more, but as a global provider of financial services. We have two different kinds of customer - business and personal - and we're trying to organise ourselves around their needs. Multinationals, for instance, buy insurance on a global basis, but co-operation between our own businesses

around the world has not been good enough."

The latest shake-up bears the hallmarks of a minor revolution that Mr Mendelsohn forced through while head of US operations at the old Royal Insurance. There, he transformed a bureaucratic, unresponsive and unprofitable division concentrating on small, local businesses into one that successfully tapped Royal's global presence to attract bigger clients.

There are differences however. He is not looking only at commercial insurance and the group is likely to seek acquisitions.

France has become a difficult market in which to operate, he says. Potential acquisition targets are attracting much interest, and the group may not find one that meets its criterion of a 10 per cent net real return on investment. It carried out preliminary due diligence on Gan, the French state-owned insurer that is to be privatised, but dropped out of the running last month.

"With the European strategy, you have to think about your ability to sell products everywhere in the community. In commercial lines, we can write business through brokers. While we are missing the ability to service



Robert Mendelsohn: 'This is about psychological change'

purely domestic customers and the personal market, I'm not losing any sleep over France and Germany."

He says the group is prepared to quit unprofitable areas and is reviewing its direct selling operations in continental Europe. In part, this has been spurred by the unexpected need to strengthen reserves against claims in the Italian motor business, where Royal set up a telematics operation four years ago.

"We'll be getting out of places where you can't make money. In personal lines, we'll be a regional player, looking at each country where every culture is different."

In the US, where Royal & Sun Alliance is already well represented in commercial lines but less so in personal, Mr Mendelsohn accepts it may not have the capital resources needed to become a significant force in personal financial services.

Anyway, he says, insurance is about the spread of risk. To this end, the group has been building its presence in Latin America and the Pacific rim. "As you get a spread of business round the world, the odds of everything going wrong at the same time are very thin."

## Airtours launches loyalty scheme

By Nicholas Wintour, Leisure Industries Correspondent

Airtours, one of the UK's largest package holiday companies, is to become the first tour operator to operate a customer loyalty scheme by offering points which can be redeemed to reduce the price of future holidays.

The scheme, which will be introduced later this month, is aimed at promoting brand awareness in a notoriously price-conscious industry. "Too many choices are made on the basis of price or destination rather than the brand," said Richard Carrick, marketing director.

He also said the group's market research had shown people wanted to receive more holiday information. The loyalty scheme comprises a discount card offered to the group's customers while on holiday giving reductions at local and UK outlets. It also includes the offer of an Airtours Visa credit card provided by Beneficial Bank. The Visa card accumulates points which can be redeemed against the price of an Airtours holiday.

Airtours said the average credit card holder, spending \$3,000 annually with their card, was likely to accumulate points worth a \$50 Airtours holiday discount.

Mr Carrick said 30 per cent of those on an Airtours holiday had booked a similar holiday with the company the previous year. In any year, 60 per cent of its customers had taken a holiday with the group previously.

Although the repeat business was relatively high, Mr Carrick said this tended to be due to the group's size - it sells 3m holidays a year in the UK - rather than because of a decision to book with Airtours.

Thomson, the UK's largest package holiday group, agreed that loyalty schemes were a valuable way of building a long-term relationship with customers. "The schemes can take different forms and you can expect something from us, though not necessarily a card," it said.

## State Street to offer asset service to UK's wealthy

By John Eylesworth

State Street Global Advisors of the US, the seventh largest investment management organisation in the world, will today announce the launch of a London-based service targeted at very high net worth individuals.

The group aims to attract substantial amounts of money - a similar service that it runs in the US has \$12bn under management.

SSGA, set up in 1978 as the fund management arm of State Street Corporation, now manages about \$235bn for institutional clients. Its sister company, State Street Bank & Trust, has more than \$2,400bn under custody.

The new service is SSGA's

first operation outside the US targeting extremely wealthy investors, with portfolios worth millions, rather than hundreds of thousands, of pounds.

Chris Hynes, executive vice president of State Street Global Advisors, said: "Individuals worldwide have amassed significant wealth recently due to strong US and European capital markets. This has prompted many investors to seek complex, tax-efficient investment strategies to preserve and grow their wealth."

The company plans to develop a range of products, including hedge funds, specifically for its new service. "We have a range of hedge fund products that we are

introducing to Europe, as well as a range of more conventional products, such as index funds," said Nigel Wightman, managing director of SSGA UK.

Mr Wightman identified the main competitors to SSGA's new service as other big hedge fund managers and a few private banks, such as JP Morgan, which also target very high net worth clients. Most UK investment banks and stockbrokers are not perceived as being competitors.

James Palmer has been appointed director of sales for trusts and investments in the UK. He was previously a sales director at LCF Edmond de Rothschild Fund Management.

## BTR in talks with CVC Capital about disposals

By David Blackwell

BTR is in negotiations with CVC Capital Partners to sell its Australian building products division and its Formica laminates operations for about \$550m.

The deal, which could be announced as early as this week, would almost complete the transformation of the group from a conglomerate to a focused engineering business.

Neither BTR nor the venture capital group were available for comment yesterday.

But the City is likely to be pleasantly surprised by news of the potential deal, as BTR was understood to be planning a flotation.

The only disposal still to be done would be the US building products division. Earlier this month, BTR sold off its glass and plastic bottling business to Owens-Illinois of the US for \$2.2bn. News that the better-than-expected sale price would allow BTR to hand back \$2bn to shareholders helped to lift the shares by 25p to 187p on the day.

A few days later analysts out their forecasts for this year by 5 per cent, when the group warned that it was still suffering from turbulent developing markets and the strong pound.

But the shares recovered from the setback, and closed on Friday at 185p, after rising 3p.

Profits before tax and exceptional items fell last year to \$1.06bn (£1.26bn), in line with expectations.

The damage to profits was more limited in the four core engineering divisions.

## COMMENT

## IT stocks

UK information technology stocks have brushed aside the profit warnings that have afflicted their US brethren.

The FTSE Information Technology index, born two months ago, has scarcely stumbled in its upward march, rising 40 per cent so far. Yet its constituents trade on ratings that look stretched. Share prices for many of them are more than 30 times this year's expected earnings - 70-80 per cent higher than the market average. This does get some underpinning from IT earnings growing at a fair clip of more than 20 per cent, but alarm bells should sound.

Computer programmers' wages are rising 15 per cent a year. So far, companies have been able to pass on those extra costs. But at some point, customers will balk and margins will come under pressure. A further concern is that while earnings growth for the sector looks assured for a few years - thanks to the millennium time bomb and European monetary union - it is likely to slow thereafter.

These are valid points. But the bulls believe it unlikely earnings growth will slow to a more pedestrian level of, say, 10 per cent after 2000. Millennium tremors may linger, the ERM project will have further to run, and other, deferred, IT work will kick in. While it takes an act of faith to believe the sector can keep growing at its present rate, heavy braking looks equally unlikely. The bears should hold off.

## Company taxation

The devil in the Budget is often in the detail. One measure that will have every finance director and accountant rifling through the small print is the new method for corporation tax payments. An updated system will, of course, be a welcome replacement for the link with dividends and the internationalisation of company earnings.

Most crucially, companies will be looking for a compromise on how they are to assess themselves for tax. The original proposal was for them to forecast their annual profits, and then to pay four equal quarterly instalments starting about half-way through the year. While companies will inevitably have to pay more tax sooner, with the final deadline brought forward six months, forecasting remains too much to swallow.

Whether or not the Inland Revenue is leak-proof, it would be uncomfortable for quoted companies to be conducting formal forecasting exercises but keeping the stock market in the dark. There have been hints of a compromise which would allow some payments to be based on the previous year's profits. Companies will be disappointed if this does not apply to at least the first two instalments.

The extent to which the Labour government has listened to corporate complaints about its original proposals will be a good test of how business-friendly it really is.

## NEWS DIGEST

## LEISURE

### Menzies Hotels seeks £15m in April flotation

Menzies Hotels, a 21-strong chain founded on the purchase of hotels from receivers, is coming to the London market next month. The group, which is aiming to raise £15m (\$25m), is expected to have a market capitalisation of about \$50m.

Nick Menzies, chief executive, started the company in 1992, and has bought more than half its mainly three-star hotels from receivership. He said yesterday that £3.3m of the money raised would be used to purchase four hotels leased to the group by the Royal Bank of Scotland, while £3m would redeem preference shares and £5m of a £12m debt total would be repaid.

The group, which made pre-tax profits of £3.1m for the year to January 31, invested £5m last year and expects four hotels to be upgraded to four-star status. Mr Menzies is selling £200,000-worth of shares, and is expected to have about 35 per cent stake after flotation. RBS will retain about 16 per cent. David Blackwell

## INSURANCE

### Cornhill suffers 5% decline

Cornhill Insurance, the UK subsidiary of Germany's Allianz group, suffered a 5 per cent profit decline last year, following the 16 per cent fall in 1996. Ray Traen, chief executive, described the prospects for UK general insurance this year as "not promising. Competition is more intense than ever and profit margins are still declining in many lines of business."

Pre-tax profits were £58.8m (£61.6m), while net premium income rose 5 per cent to £703.7m. While profits on general business fell from £30m to £25.5m, the life business improved from £5.9m to £8.4m. The group said new business in the smaller life assurance arm rose 28 per cent. David Blackwell

## OIL AND GAS

### Monument Oil funding

Monument Oil and Gas, the independent explorer, has agreed to fund BP's share of an exploration programme in three North Sea blocks, in return for some of BP's equity in the blocks. Under the agreement - which is subject to government approval - Monument will fund up to four wells in return for 50 per cent of BP's equity in the blocks. Virginia Marsh

### Emerald Energy raising £3.4m

Emerald Energy, the oil and gas explorer based in the Isle of Man, said it was having to raise funds following delays and technical difficulties in Colombia. It was making a conditional placing of 52m shares at a price of 8.75p through WH Ireland and Teather and Greenwood to raise £3.4m net. This would "restore working capital to a more prudent level". Virginia Marsh

## Keep Lonrho Africa shares, directors say

By Andrew Edgworth-Johnson

Directors of Lonrho are advising shareholders to hold on to their stakes in Lonrho Africa, when the collection of African motor dealerships, hotels and agricultural assets is demerged later this spring.

Some analysts have questioned the timing of the demerger, as Lonrho Africa's profits will be depressed this year by political unrest and turbulent weather in several of its sub-Saharan markets.

Such factors could depress the new company's value when its shares are listed independently in May.

Sir John Craven, Lonrho's chairman, said: "I suppose if Lonrho Africa's earnings trend and outlook had been strongly upward it would have been slightly nicer." He stressed, however: "All we are doing is giving shareholders the assets and earnings stream they already own in a different form."

Sir John joined Nick Morrell, chief executive, and

Robin Whitten, finance director, in saying he would hold on to his shares in Lonrho Africa. Terence Wilkinson, the director in charge of Lonrho mining, added: "Who would dare sell?"

Analysts have speculated that caution among London investors about how to put a price on a diverse portfolio of assets in 14 African countries could mean that Lonrho Africa is undervalued. Such circumstances could encourage a bid for some or all of the new company, particularly from South African interests.

Lonrho took two significant steps towards its goal of becoming a focused mining company on Friday, with the R1.38bn (£167m) acquisition of the Tavistock colliery in South Africa and the agreement to buy back a 21 per cent block of its shares from Anglo American, the South African mining giant, leaving it with 6.1 per cent.

Lonrho has agreed to inject £48m into Lonrho Africa, and has won a battle

with the Inland Revenue for the demerger to be treated as a tax-free distribution to shareholders.

The parent company, which will span coal, platinum and gold mines once it has sold Princess Hotels, is expected to drop the Lonrho name.

It said the name, which refers to the group's origins as the London and Rhodesian Mining and Land Company, no longer reflects its activities, but the board has yet to decide on a new title.

## BusinessWeek

## In this week's issue

- Why the City of London is the financial centre of Europe
- Hot Growth Companies: Small businesses lead the way in Europe
- Telefonica: Will it get the global deal it needs?
- Can Mitsubishi Motors recover?

ON SALE NOW

For information call Int +44 (0)1628 502900



## COMPANIES &amp; FINANCE

## Stora says efficiency gains will boost profit

By Greg Melvor in Stockholm

Stora, the Swedish forestry group, is to launch an efficiency drive it predicts will help double profits in the next two to three years and boost its competitiveness in a globalising industry.

Björn Häggblund, Stora's new chief executive, said the measures, combined with organic growth, would generate annual savings of \$5.35bn (\$443m) by the end of 2000 and lift return on capital from 7 per cent to 12-14 per cent.

Mr Häggblund, who succeeded Lars-Ake Helgesson as chief executive last week, stressed his priority was on streamlining Stora's existing operations rather than participating in the consolidation currently sweeping the international pulp and paper industry.

He distanced himself from recent comments by Bo Berggren, Stora's chairman until last week, that the company needed to merge with a big rival to provide the critical mass needed to survive in an increasingly global sector.

"Among forest products companies there is no apparent connection between size and return," Mr Häggblund said in an interview with the Financial Times.

"Concentration can be positive, but it isn't always so easy to create long-term value for shareholders via this route."

Stora shares have risen sharply in recent weeks on speculation of a merger with a large Nordic paper group. The stock has underperformed the Stockholm bourse since 1989, during which time the group's oper-

ating performance has lagged behind that of many key rivals.

Mr Häggblund acknowledged that Stora's average return on capital employed of 7.5 per cent in the past five years had been "too bad", but he made clear a big merger was no guaranteed panacea. Instead, he said potential existed for strong productivity increases at Stora's mills.

He said the company would refrain from capital-intensive investment in new plant in the next two to three years to concentrate on harnessing these gains.

Mr Häggblund said around 5 per cent of Stora's mills were non-core.

Buyers would be sought for these operations, which include specialty papers and the production of fine paper from recycled pulp.

## Thai steel group to get \$650m injection

By William Barnes in Bangkok

Foreign investors, including the financier George Soros, will inject a total of \$650m into the new Thai steel producer Nakornchai Strip Mill.

It is the biggest deal of its kind since Thailand's slowing economy was hit by the baht's flotation and subsequent fall last July.

Investors are calculating that the cash-strapped but modern steel company will be able to export its way into profit and later sell its output on the domestic market when the big local vehicle industry revives.

The deal could be seen as a turning point in the financial recovery of Thailand, said David Sticker, managing director of corporate finance at MacDonald and Company Securities.

It involves \$450m in high-yield bonds and about \$150m of senior secured financing. The Enron Corporation, Steel Dynamic and a fund controlled by Mr Soros have participated in a \$50m injection of fresh equity.

The new investors have ring-fenced NSM's operations from its parent, the NTS steel group, which last year defaulted on a euro-bond payment.

Analysts said the deal was a welcome vote of confidence in Thailand but a slightly surprising choice.

The mill is essentially a greenfield project without a track record and starting out with a fairly heavy debt burden, said Sriyan Pietersen, head of research at SocGen Crosby in Bangkok.

About \$270m of the new money will help finish the Eastern Seaboard steel plant, which has an eight-year contract to sell steel, at floating prices, to the German traders Preussag Handel and Klockner Steel Trading.

## Alcoa bids to expand on two fronts

The Alumax offer will not affect Venezuelan plans, write Raymond Collett and Nikki Tait



Aluminum Company of America is the world's largest aluminium producer. Just how much bigger does it intend to become?

Last week, Alcoa announced a \$3.8bn bid (including debt) for Alumax, the number three aluminium producer in the US. Yet, while discussing the deal with analysts, Paul O'Neill, Alcoa's chairman, made clear it would not impinge on the Pittsburgh-based company's participation in the privatisation of the Venezuelan aluminium industry. It has already teamed up in a consortium with Canada's Alcan group, and the duo is regarded as the likely "lead dog" in the bidding.

"I don't want you all to think we've closed up shop here," said Mr O'Neill. "We and Alcan are doing due diligence on the Venezuelan aluminium assets. I don't want you all to think we're not a player - a powerful player - for that."

If Alumax is a chunky business, the Venezuelan operations are no minnow. Corporación Venezolana de Guayana (CVG), the state holding company, is looking to sell a 70 per cent stake in its integrated aluminium complex, which takes in two smelters and a carbon producer as well as bauxite mines and reserves.

The combined production capacity amounts to 635,000 tonnes a year at present, or some 5 per cent of world production in 1997. Moreover, a long-shelved project could add a fifth production line at a cost of \$400m at one of the two smelters. This would boost total production capacity by 200,000 to 835,000 tonnes a year.

Venezuela is also one of the lowest-cost aluminium production sites because of its cheap hydro-electricity

and ample supplies of natural gas and minerals. The CVG complex has an estimated value of \$2.5bn to \$2.7bn.

The downside is that it is saddled with \$1.25bn of debt, of which \$600m is owed to international creditors, including France's Paribas and Germany's KfW.

However, on the remaining \$650m owed to the government, the winning bidder will have to pay only interest (at 300 basis points above US Treasury bills) during the first four years, before amortising the capital. That debt has not been serviced for seven years.

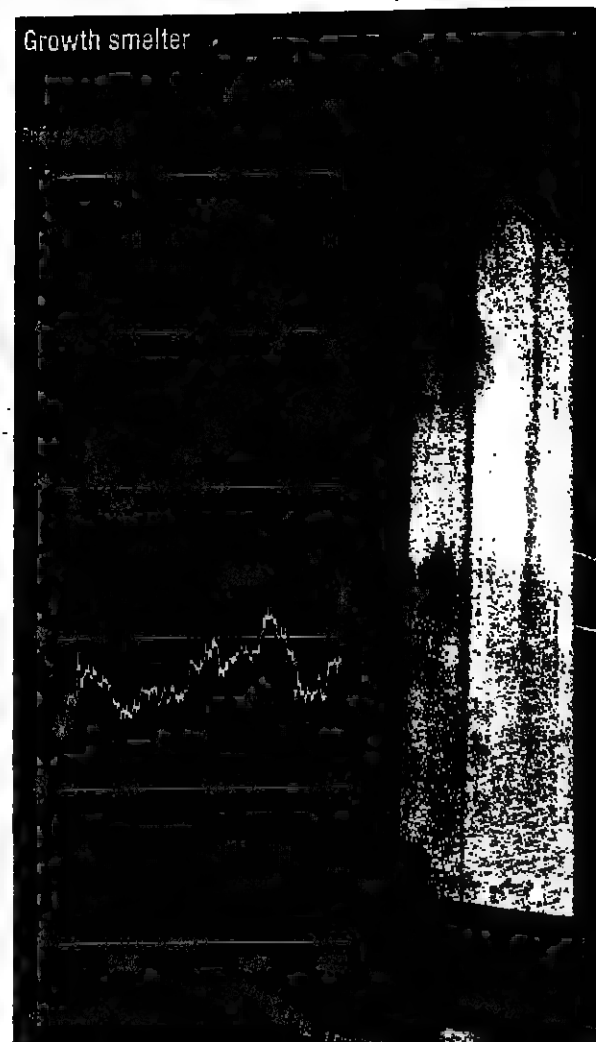
Back in the US, analysts were quick to question whether the anti-trust issue might prove a more serious obstacle to the Alumax takeover. After all, just three months ago, the Justice Department blocked Alcoa from acquiring a single rolling plant, producing sheet aluminium to make beer and soda cans, from Reynolds Metals, the number two US producer.

The \$250m deal, it said, was a "classic case of a highly-concentrated industry becoming even more concentrated". Now, Alcoa wants to take over the industry's number three company in its entirety - superficially, an even more ambitious move.

Still, not everyone is downbeat about the regulatory prospects. Thomas McNamara, analyst at CIBC Oppenheimer, said the Reynolds problem arose in the context of the can sheet segment of the industry, which is highly concentrated and not significantly affected by the Alcoa/Alumax deal.

The merger would not appear to trigger problematic industry concentration levels in terms of total US capacity, he estimates, nor even in the soft alloy extrusions segment where Alumax is a market leader.

The one area that analysts do see as a potential problem is the cast plate market. Abu-



Growth smelter

max is the market leader and Alcoa a significant second - but here, regulatory concerns might be managed by selective disposals.

Perhaps most interesting is whether the authorities feel a need to consider the Venezuelan deal (assuming the Alcoa/Alcan consortium wins) and the Alumax deal simultaneously.

These transactions would follow Alcoa's purchase last year of Inesap, the Spanish company also sold in a government privatisation, and come when it is still sitting on spare smelting capacity.

Michael Kelley, at George Mason University, said these acquisitions would take Alcoa's market share of global primary production to about 29 per cent, almost double last year's figure.

The Venezuelan privatisation agency, FIV, has few concerns about anti-trust rulings if the Alcoa-Alcan consortium wins the bid. "We do not see it as an immediate concern," said the FIV's Gretty Suarez, adding that it had received a communiqué from US anti-trust authorities, allegedly signalling its endorsement of an Alcoa acquisition.

## Sabic confident it can ride out Asian downturn

By Robin Allen in Doha

Saudi Basic Industries Corporation, the state-controlled petrochemicals group, is better positioned than rival producers in leading consuming markets to ride out any downturn arising from economic problems in Asia, according to Ibrahim Bin Salamah, Sabic managing director.

Last week Sabic, which accounts for about 5 per cent of world petrochemical output, announced a 4.5 per cent rise in 1997 profits to \$1.22bn.

Sabic's profits have yet to recover to the record \$1.68bn reached in 1995, but sales have risen 37 per cent over the past four years, from \$4.7bn in 1994 to \$6.4bn last

year, an increase of 15.4 per cent in 1996.

Output over the same period has risen 18 per cent to 52.7m tonnes.

Mr Bin Salamah said Sabic, which is 70 per cent state-owned but quoted on the Saudi stock exchange, benefited from its ready access to plentiful feedstocks and cost-effective production technology, especially in ethane cracking.

Bearish analysts said Sabic could be vulnerable to increased ethylene capacity in the US and Far East.

But Sabic has the ability to push sales of ethylene derivatives into Asia and Europe at competitive prices.

"The biggest growth will be in the Middle East/North Africa region at around 9 per cent a year," he said.

gas and the relatively low cost which it has been paying to its supplier Saudi-Aramco, the state hydrocarbons company.

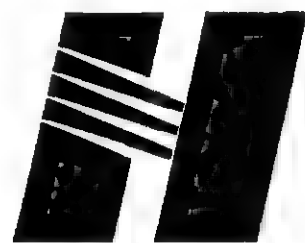
Since January 1, Sabic has had to pay 50 per cent more for ethane as a result of measures the government is taking to meet liberalisation requirements laid down by the World Trade Organisation.

However, the price it pays for feedstock is still well below that paid by western rivals.

Mr Salamah said he believed world demand for petrochemicals would continue to grow.

"The fastest growth will be in the Middle East/North Africa region at around 9 per cent a year," he said.

les Hotels seeks  
in April flotati



## Huaneng Power International, Inc.

(A company incorporated in the People's Republic of China with limited liability)

Credit Lyonnais Securities Asia (CLSA) was the sole bookrunner and sole underwriter for the global offering of 250,000,000 H Shares, in the form of H Shares listed in Hong Kong or American Depositary Shares listed in New York raising a total of

US\$ 142,000,000

February 1998

GLOBAL EMERGING MARKETS  
(formerly Credit Lyonnais Securities Asia)

These securities having been sold, this announcement appears as a matter of record only.

THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF BONDHOLDERS. IF BONDHOLDERS ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE, THEY SHOULD CONSULT THEIR OWN INDEPENDENT PROFESSIONAL ADVISERS IMMEDIATELY.

## B.A.T. CAPITAL CORPORATION

(a company incorporated under the General Corporation Law of the State of Delaware, U.S.A.)

## NOTICE OF AN ADJOURNED MEETING

of the holders of the outstanding  
U.S. \$500,000,000 6% Guaranteed Bonds Due 2003 of the issuer  
(the "Bondholders" and the "Bonds" respectively)

NOTICE IS HEREBY GIVEN that the Meeting of the Bondholders convened by the issuer for Thursday, 12th March, 1998 by the Notice dated 17th February, 1998 published in the Financial Times on 18th February 1998 and the adjourned Meeting of the Bondholders convened by the issuer for Thursday, 2nd April, 1998 at 10.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed dated 24th November, 1993 (the "Trust Deed") made between the issuer, B.A.T. Industries p.l.c. as guarantor (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the Bondholders and constituting the Bonds:

EXTRAORDINARY RESOLUTION  
THAT this Meeting of the holders of the outstanding U.S. \$500,000,000 6% Guaranteed Bonds Due 2003 of B.A.T. Capital Corporation (the "Bonds" and the "Issuer" respectively) convened by the Trust Deed dated 24th November, 1993 (the "Trust Deed") made between the issuer, B.A.T. Industries p.l.c. as guarantor (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders") hereby:

- (1) resolves and approves the early repayment of all (but not some only) of the Bonds at a repayment price (the "Repayment Price") which is the higher of par and the price (expressed as a percentage of the principal amount thereof rounded to three decimal places, 0.005 being rounded upwards) at which the gross redemption yield on the Bonds is equal to 30 basis points (0.30 per cent) (on a semi-annual basis) above the gross redemption yield on the United States Treasury 5 1/8% Notes due January 31, 2000 (the "Reference Rate") (expressed as a percentage and calculated in accordance with the International Securities Association "Formulas for Yield and Other Calculations", Chapter 6, paragraphs 6.3.1 and 6.3.2, based on the bid side price of the Reference Rate as reported on Reuters page 2000), to be ascertained by Goldman Sachs International at 3.00 p.m. (London time) on the first business day in both London and New York City following the date on which this Extraordinary Resolution is passed, the bid side price of the Reference Rate at such time on such day (or, if it not then available, at the most recent practicable time prior thereto) to be determined by Goldman Sachs International (the "Proposer");
- (2) resolves the early repayment by the issuer of all (but not some only) of the Bonds on the date being the fourth business day in both London and New York City following the date on which this Extraordinary Resolution is passed, together with accrued interest on the Bonds in accordance with the Terms and Conditions of the Bonds up to and including the Repayment Date, subject to the provisions of Condition 7 of the Bonds;
- (3) resolves every modification, alteration, variation or amendment of, or arrangement in respect of, the rights of the Bondholders and the holders of the Coupons appertaining to the Bonds against the issuer and the Guarantor, whether or not such rights arise under the Trust Deed, involved in or resulting from the Proposal and its implementation; and
- (4) authorises and directs the Trustee to execute in the implementation of the Proposal and this Extraordinary Resolution and to execute and do all such deeds, instruments, acts and things that may be necessary or expedient to carry out and give effect to the Proposal and this Extraordinary Resolution.

FURTHER INFORMATION  
On 16th October, 1997, it was announced (the "Announcement") that the boards of the Guarantor and Zurich Insurance Company ("Zurich") had reached agreement in principle to merge the two companies into a new entity, B.A.T. Industries p.l.c. (the "New Company"). The New Company is a public limited company incorporated in the United Kingdom. A legally binding agreement relating to the merger was subsequently entered into by the Guarantor and Zurich on 22nd December, 1997. Implementation of the merger may give rise to an event of default in respect of the Bonds which may, in turn, result in the Bonds becoming immediately due and repayable at par together with accrued interest. In the Announcement, it was stated that the Guarantor wished to protect the interests of the existing holders of both stock, bonds and notes issued or guaranteed by the Guarantor. In preparation for the announcement of the merger, put in place an underwritten financing facility for its general corporate purposes which would enable such date to be met. The Facility was a revolving credit facility for a period of 36 months, expiring on 31st March 2000, with a maximum commitment of \$500,000,000. The Facility was approved by the holders of the Bonds at a meeting on 20th February, 1998. The separate proposals for the early repayment of the \$500,000,000 6% Guaranteed Bonds Due 2003 and the \$500,000,000 6 1/2% Guaranteed Bonds Due 2005 of the issuer were approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$400,000,000 6% Guaranteed Bonds Due 1999 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2000 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2001 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2002 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2003 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2004 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2005 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2006 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2007 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2008 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2009 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2010 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2011 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2012 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2013 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2014 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2015 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2016 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2017 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2018 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2019 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2020 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2021 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2022 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2023 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2024 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2025 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2026 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2027 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2028 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2029 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2030 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2031 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2032 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2033 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2034 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2035 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2036 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2037 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2038 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2039 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2040 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2041 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2042 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2043 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2044 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2045 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2046 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2047 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2048 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2049 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2050 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2051 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2052 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2053 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2054 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2055 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2056 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2057 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2058 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2059 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2060 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2061 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2062 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2063 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2064 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2065 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2066 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2067 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2068 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2069 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2070 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2071 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2072 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2073 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2074 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2075 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2076 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2077 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2078 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2079 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2080 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2081 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2082 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2083 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2084 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2085 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2086 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2087 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2088 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2089 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 2090 of the issuer were also approved by the holders of the Bonds at a meeting on 12th March, 1998. The outstanding U.S. \$100,000,000 6 1/2% Guaranteed Bonds Due 209



## NEWS DIGEST

## GERMAN BANKING

## Helaba starts searching for possible partner

Germany's over-crowded banking sector looks set for further concentration as Landesbank Hessen-Thüringen (Helaba), a medium-sized public sector bank, embarks on the search for a possible partner. With public and private sector banks now merging, Helaba had to consider how long it could carry on alone, said Udo Güde, head of the savings bank association for the states of Hesse and Thuringia, which owns the bank.

He did not mention any likely partners, but dismissed the idea of a link with a quoted bank along the lines of Bankgesellschaft Berlin's planned merger with Hannover-based Norddeutsche Landesbank. The Berlin bank combines private and public sector operations. Nor did he favour a vertical amalgamation, such as that under way in Stuttgart, southern Germany, to create Landesbank Baden-Württemberg; this will combine wholesale financial activities for the state government and the regional savings bank movement with retail savings bank business.

Mr Güde declined to say whether Westdeutsche Landesbank, Germany's biggest public sector bank, might be a suitable partner or whether any recent contacts had taken place. Previous merger talks between the two founded 10 years ago. Some analysts regard Bayerische Landesbank as a possible partner. With total assets of DM185bn (\$102bn), Helaba is much smaller than both banks and will be dwarfed by the Berlin-Hannover and Stuttgart mergers. *Andrew Fisher, Frankfurt*

## TURKISH BANKING

## Akbank plans share sale

The owners of Akbank, one of Turkey's largest banks, plan to raise about \$120m by selling about 3.5 per cent of their equity in the bank to international investors. Morgan Stanley, the Wall Street investment bank, is organising the offering in Akbank, majority-owned by the Sabanci family. Marketing begins today in Zurich and Morgan Stanley plans to hold sales presentations to investors in Europe and the US over the next two weeks, after which it will announce the stock's price.

Turkish banks have profited strongly from Turkey's high inflation and interest rates. Akbank reported net income up 29 per cent in dollar terms last year to \$598.8m. Robert Fleming, the UK investment bank, said in a research report that Akbank has "one of the strongest balance sheets in Turkish banking, with impressive capitalisation, a healthy loan book, and a strong deposit franchise".

An executive said the family will plough the sale proceeds into family-owned Hacı Ömer Sabancı Holding, which would then buy the bank's industrial assets. Akbank will continue to be listed in Istanbul, where it has a free float of 17 per cent, although it will be traded in ADR form in London.

This is part of a long-term plan to separate the group's industrial and financial assets. Akbank holds small stakes in several group companies controlled by the holding company, which in turn owns about half of the bank. Last year, the Sabanci family sold 10 per cent of the holding company in a local and international initial public offering that raised \$200m, which was partly used to restructure the group. *John Barnham, Ankara*

## OILFIELD SERVICES

## Salpem issue priced

The planned issue of 100m shares in Salpem, the oilfield services company controlled by Italy's Eni oil and gas group, will be priced at \$5.90 a share, a 9.2 per cent discount on the closing price of \$1.02, 200 on Friday.

The offering, of 40m new shares and 60m shares from Eni's stake, will raise up to \$1,140bn (\$687m) if an over-allotment option of 15m shares is fully exercised. The sale will reduce Eni's stake in Salpem from 66 per cent to 49 per cent, or 43 per cent including the over-allotment. The capital increase is designed to fund the group's \$1,700bn four-year investment programme.

Bankers familiar with the deal said the amount was already more than twice subscribed, although the offering will only close on March 23.

Goldman Sachs and SBC Warburg Dillon Read are joint book-runners of the international offering. IMI, the Italian bank, is lead manager for the domestic institutional tranche. *Samir Iskander, London*

## SWISSAIR APPOINTMENT

## Peter Petersen joins Nuance

Peter Petersen, former president of Swatch, the world's top selling watch brand, is joining SAIRGroup, parent of Swissair, in a bid to revive the fortunes of Nuance, the world's second biggest operator of duty free shops.

Mr Petersen, a German who has worked for Chase Manhattan and Goodyear, replaces René Dafflon, the Nuance chief executive who masterminded the acquisition of Alders, the UK duty free store group in June 1998. The acquisition was criticised because the Swiss airline appeared to have overpaid for a business that was about to lose several of its most lucrative management contracts and face a serious threat from the ending of duty free shopping in Europe by 1999.

Nuance has grown rapidly over the last few years and now has sales of \$71.5bn (\$10.1bn) a year. However, SAIRGroup admitted last year that Nuance's results were not living up to expectations. It sold turnover and profit targets had not been achieved and the integration of the Alders duty free and retail chain had taken "more time and been more cost-intensive than originally envisaged". Australia, an important part of the business, had been particularly disappointing.

Mr Petersen, who will join Nuance in the late summer, is a member of the executive board of SMH, the world's biggest watch company. Until recently, he headed Swissair, SMH's leading brand, but was recently replaced by Nicolas Hayek, son of SMH's chairman. SAIRGroup, one of SMH's bigger customers, described Mr Petersen's appointment as a "significant step in strengthening" Nuance's management. *William Hall, Zurich*

## CROSS BORDER M&amp;A DEALS

| BIDDER/INVESTOR                | TARGET                      | SECTOR          | VALUE    | COMMENT        |
|--------------------------------|-----------------------------|-----------------|----------|----------------|
| Reed Elsevier (UK/Netherlands) | Wolter Kluwer (Netherlands) | Publishing      | \$17bn   | Abandoned      |
| Roche (Switzerland)            | Boehringer (Germany)        | Pharmaceuticals | \$10.2bn | Prices cut     |
| Bowater (US)                   | Avenor (Canada)             | Forest products | \$2.4bn  | Beats Abitibi  |
| Fortis (Belgium/Netherlands)   | John Alden FC (US)          | Insurance       | \$600m   | Sold on buy    |
| GSM (Germany)                  | Steyr-Daimler (Austria)     | Engineering     | \$407m   | Topo Magna bid |
| Domination Energy (US)         | Archer (Canada)             | Oil & gas       | \$128m   | Offer agreed   |
| Nomura (Japan)                 | IPB (Czech Rep)             | Banking         | \$88m    | Long awaited   |
| GE Capital (US)                | Barcom (UK)                 | Plant hire      | \$60m    | Earth moving   |
| API (UK)                       | Astor Universal (US)        | Packaging       | \$59.7m  | FR in talks    |
| Avon Rubber (UK)               | Hi-Life Rubber (US)         | Rubber          | \$36m    | Daily deal     |

**CITICORP**  
DM300,000,000  
Floating Rate Notes Due December 1999 (the "Notes")  
Notice is hereby given that the rate of interest for the period March 16, 1998 to June 15, 1998 has been fixed at 3.750% and that the interest payable on the relevant interest payment date, June 15, 1998, is 3.750% of the principal amount of the Notes.  
March 16, 1998, London  
By Citicorp, N.A. (Corporate Agency & Trust), Agent Bank

## Pan-European banks 'in 5 years'

By George Graham  
and Andrew Jack

A pan-European market for retail financial services may take no longer than five years to emerge after the introduction of the euro, according to Daniel Bouton, chairman of Société Générale, France's largest private sector bank.

Mr Bouton has argued in the past that the creation of a single currency would not be enough to create a single market for banking services for personal customers, and Société Générale has no plans to expand in the retail sector outside France.

"I haven't changed my mind about retail banking activities. I still consider that differences in mentalities, savings regulations and tax laws will continue for several years to be very efficient barriers to multinational retail banking," he said.

Nevertheless, Mr Bouton said these barriers would not last as long as many people expected, even if language differences meant that there would never be a fully unified market.

Starting as early as 2000, pressure would grow from



Daniel Bouton sees growing pressure from consumers

consumers for the harmonisation of tax rules on savings and investment products.

"Let's assume two years where nothing happens, and then two or three years of political debate, but I don't foresee that it will take more than five years before we

have a common basis for fiscal regulations."

Société Générale, which last week reported a 34 per cent increase in net profits last year to FF6.1bn (\$1bn), has raised eyebrows in the investment banking industry with a string of small acquisitions.

Besides the corporate finance and private banking arms of Hambros of the UK and the asset management arm of Yamachi Securities in Japan, the French bank has struck deals with three US corporate finance boutiques including Barr Devlin, a New York-based specialist in the utilities sector, Bannan & Co, a Beverly Hills media sector adviser, and Cowen & Co, a New York healthcare, technology and media firm.

Mr Bouton said these acquisitions were carefully targeted, and not intended to vault Société Générale into the top tier of global investment banks.

"The aim is not to build a bulge bracket investment bank with global capacity. What we are doing is adding commission-driven revenues to our wholesale business in some parts of the world."

Each of the US firms, he said, added expertise in sectors where Société Générale was already a significant player.

"My intention is to stop this acquisition process for some time while we digest, but if we did something more, it would be to add one more industry line."

## Heineken sees revived growth

By Gordon Cramb  
in Amsterdam

Shares in Heineken, the world's second largest brewer, surged 7.7 per cent on Friday as it served shareholders a scrip issue and holders a split along with a stock split along with a steady rise in annual profits.

The results confirmed a return to growth after a Dutch group after a flat 1998. An unchanged cash dividend, and an acknowledgment that it had lost first place in the US market for imported beers, were brushed aside.

Karel Vuursteen, chairman, conceded defeat to Mexico's Corona as the import of choice for Americans.

But he argued that this had come amid a price war. Heineken, which outside the Netherlands and the UK is sold as a premium product, was staying aloof.

Heineken said it was concentrating on profit margins and long-term strategy in the US, the world's largest beer market.

To enrich the mixture, the

group is adding niche brands to its US portfolio. Corona's Hispanic appeal is being countered on a modest scale by Desperados - a beer with a tequila aroma, produced by Heineken's Fischer subsidiary in France.

Heineken sold 73.8m hectolitres worldwide last year, an increase of 4.4 per cent which it said compared with 1 per cent for the industry as a whole. Revenues were ahead 11 per cent at \$13.51bn (\$6.8bn).

Net profits at \$1.71bn were ahead 16 per cent, at the upper end of analysts' forecasts. Earnings per share were \$1.15 against \$1.06.

Although the basic cash dividend for the year remains at \$1.35, shareholders are to receive one bonus share for every four held, plus 69.4 Dutch cents to cover domestic withholding tax.

The shares will then be split five-for-one, meaning that a holder of four existing shares will end up with 25.

In Amsterdam on Friday the shares closed \$132.40 higher at \$145.40.

## Tomen to reduce directors to a third

By Michio Nakamoto in Tokyo

Tomen, one of Japan's leading trading companies, is reducing the number of directors to a third of its current level over the next two years in a major restructuring effort. The move follows a dismal performance that has forced the company to pass its dividend for the first time in more than 40 years.

The agrochemicals to machinery group, which is Japan's seventh largest trading company, warned it would report net losses of ¥19bn (\$148m) in the current year - largely as a result of a ¥37bn write-off related to losses from financial assets and affiliated companies.

Under the restructuring programme, one of the most dramatic undertakings in a wave of similar action mainly seen in financial services sector, eight directors, including chairman Yasuo Matsuzawa, will step down. The salaries of directors will be reduced by between 10 per cent and 30 per cent.

Tomen also aims to consolidate the number of its affiliates from 472 to about 60 and reduce its payroll of 2,730 by about 400. It also aims to reduce its borrowings of ¥1,064.8bn by about ¥200bn.

Tomen's dismal performance reflects the pressures on Japanese companies after the bursting of Japan's asset bubble and the weak stock market. ¥25bn of the write-offs relates to losses incurred because of the weakness in share prices.

It is the first time in more than 40 years Tomen will have posted a full-year net loss. It reflects the damage the Asian crisis is having on Japanese trading companies, which have been deeply involved in infrastructure projects in the region.

A company bound by tradition, which dictates that

relationships often take precedence over profits, Tomen is under pressure to prepare for increased competition in key markets where the increasingly global nature of industries has weakened the role of Japan's trading groups.

## INTERNATIONAL BONDS TRADING IN LOCAL INSTRUMENTS HAS OUTSTRIPPED THAT IN EMERGING MARKET DEBT

## Investors boldly cross final frontier

By Samir Iskander

Assets denominated in local currencies were always seen as the "final frontier" in emerging market investment. This frontier was crossed boldly by increasing numbers of international investors during last year's bull market.

Trading in local instruments grew by 18 per cent to \$1,500bn in 1997, outstripping the general progression in emerging market debt, which rose by a more modest 12 per cent, according to the Emerging Markets Traders Association. Brazilian local instruments saw the sharpest growth, with turnover rising by 168 per cent.

"The risk-reward profile is very different for local instruments because of the added exchange rate risk," says Peter West, chief economist at BEV Ltd.

But the potential rewards are much greater. "Investors' growing acceptance of risk was reflected in the shift from Brady bonds - which are backed by US Treasury securities - to eurobonds, which expose the buyer to the risk of default. Local instruments induce an added risk dimension, because they expose investors to the risk of being

immersed in a devalued currency."

Mr West points to two main factors behind the rising attractiveness of Latin American markets:

● The "pull factor": sound economic policies and market-oriented reforms have made these markets less risky.

● The "push factor": bond yields in industrialised countries have fallen to record lows as a result of fiscal discipline, a reduction in inflation and a fall in government bond issuance, which has forced yield-hungry investors to turn to riskier markets.

Analysts also believe investors are attracted by Latin America's transparency and safety relative to other emerging markets.

"These markets are more transparent than other emerging markets, such as Asia," says Christina Heisl, head of investment at BB Securities, the London investment banking arm of Banco do Brasil. "Brazil, in particular, has been offering a good story for quite a while. As long as the economic reforms remain on

track, investors will continue to show interest."

Mexico, Argentina and Chile are also "going in the right direction", she adds.

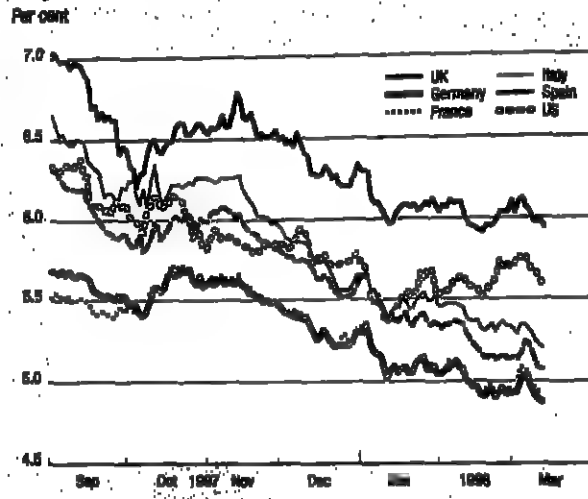
Latin America, however, was not entirely unaffected by the spillover from last autumn's Asian turmoil. The flight to quality, which led investors to retreat from Asia and eastern Europe to the most stable North American and western European bond markets, was also felt south of the US.

"The increase in trading occurred primarily in the first and second quarters, and declined markedly in the second half of the year when Asia-related currency concerns adversely affected the Brazilian markets," says the EMFA.

However, the decline was limited compared with some Asian markets.

While the turmoil also caused a sell-off in most Latin American markets, Mr West believes that the panic was short-lived. "The fact that Brazil managed to defend its currency successfully when it was under pressure will underpin investor confidence. The crisis was more of a setback than a reversal of the trend."

## 10-year benchmark bond yields



Ms Heisl believes that after the worst of the turmoil was over, some markets could benefit from the lingering uncertainty. "Some people feel we have not seen the end of the Asian crisis, so they will continue to focus more on Latin America," she says.

But further, more localised, turmoil cannot be ruled out, especially with several countries facing elections - Ecuador and Colombia in

May, Brazil in October and Venezuela in December. And in times of uncertainty, local currency instruments have traditionally proved more volatile than Brady bonds or eurobonds. But analysts do not expect any significant damage from a potential rise in volatility.

"The question is not that new governments might reverse existing reforms, but whether they will maintain momentum," says Mr West.

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded against key currencies on Friday, March 13, 1998). In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from rates of foreign currencies to which they are tied.

|                             | £ STG  | DM     | DM-MARK | ¥ YEN  | ₹ RUPEE | ₹ STG  | ₹ DM   | ₹ YEN  | ₹ STG  | ₹ DM   | ₹ YEN  |
|-----------------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|--------|--------|
| Australia (Sydney)          | 1.5638 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Brazil (Rio de Janeiro)     | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Canada (Toronto)            | 0.7087 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Chile (Santiago)            | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| China (Hong Kong)           | 7.7564 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Colombia (Bogota)           | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Czech Rep. (Prague)         | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Denmark (Copenhagen)        | 6.4663 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Egypt (Cairo)               | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| France (Paris)              | 6.5595 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Germany (Frankfurt)         | 1.9364 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Greece (Athens)             | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| India (New Delhi)           | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Indonesia (Jakarta)         | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Italy (Milan)               | 1.9364 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Japan (Tokyo)               | 1.5638 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Korea (Seoul)               | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Malaysia (Kuala Lumpur)     | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Mexico (Mexico City)        | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Netherlands (Amsterdam)     | 6.5595 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| New Zealand (Wellington)    | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Norway (Oslo)               | 6.4663 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Poland (Warsaw)             | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Portugal (Lisbon)           | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Romania (Bucharest)         | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Russia (Moscow)             | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| South Africa (Johannesburg) | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Spain (Barcelona)           | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Sweden (Stockholm)          | 6.4663 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Switzerland (Zurich)        | 1.9364 | 0.6305 | 0.0078  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Taiwan (Taipei)             | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Thailand (Bangkok)          | 2.7542 | 1.3770 | 0.6305  | 0.0078 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| United Kingdom (London)     | 1.0000 | 1.0000 | 1.0000  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| USA (New York)              | 1.0000 | 1.0000 | 1.0000  | 1.0000 | 1.0000  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |



# Red faces over Steyr-Daimler-Puch

By Eric Frey in Vienna

The sale of Austrian vehicle maker Steyr-Daimler-Puch, which looked straightforward a few weeks ago, has turned into an embarrassment for Bank Austria, the country's largest bank, and parts of Austria's business establishment.

Creditanstalt, the wholly owned subsidiary of Bank Austria, was just a day away from finalising the sale of its 67 per cent stake in the automotive group - and its 50 per cent holding in Steyr's profitable joint venture with Chrysler - to Canada's Magna International when political criticism and a tentative but better counter-offer forced it on Tuesday to delay the decision.

Since then, several other bidders have stepped forward, all willing to pay more

than the Sch5.5bn (\$274m) that Magna's chairman, the Austrian-Canadian businessman Frank Stronach, put on the table.

They include GSM, a German investor group; a group formed around Hannes Androsch, the former finance minister and Creditanstalt chairman; and Borg Warner, the US automotive concern and Magna's main competitor in the North American market.

Analysts have long argued that based on Steyr's annual cash flow of more than Sch5bn, Creditanstalt's stake should be worth at least Sch5bn. Creditanstalt's management now has to explain why it was so eager to sell Steyr to Magna for what looks to many like a bargain price.

Mr Stronach, who emigrated in the 1950s from Aus-

tria to Canada, where he founded Magna, is close to former social democratic chancellor Franz Vranitzky, who arranged the initial contacts for the Steyr deal.

Bank Austria chairman Gerhard Benda also sits on the board of Magna International.

The deal was announced on January 9, but the details were unclear. The bank's management first tried to get approval by the supervisory board by written consensus, but when some members complained, it was put on the agenda of last Tuesday's meeting.

"This was not done in line with Austrian business practice, not to speak of international practice," Mr Androsch said in a television interview yesterday.

Magna's bid was welcomed by Steyr's workers' council,

which liked Mr Stronach's emphasis on a co-operative relationship between management and employees. In recent years, Mr Stronach has created and guaranteed thousands of jobs in the Austrian car supply industry through investments and acquisitions. But Bank Austria shareholders were less impressed.

The tussle over Steyr is reminiscent of the drawn-out privatisation of Creditanstalt, which took almost 10 years and ended with Bank Austria swallowing its main rival after a series of political battles. Many of the forces now lining up against a sale to Magna seem to be linked to Creditanstalt's former top management.

Mr Androsch, who led Creditanstalt in the 1980s, was the first to criticise the Magna offer.

GSM's key adviser is Franz Leibenfrost, another former top executive in the Creditanstalt group. Mr Leibenfrost is understood to have approached the bank's management some months ago with an offer to buy Steyr. He arranged for GSM to make a last-minute entry that stopped Magna in its tracks and forced Creditanstalt to postpone the sale.

The smart money in Vienna is still on Magna to win the Steyr battle. There are doubts over whether GSM will actually make a binding offer.

On Friday, the group complained about a lack of co-operation from Creditanstalt and demanded a 12-week moratorium to study the books. Only Borg Warner is believed to have entered serious negotiations so far.

## Wolters Kluwer ahead of target

By Gordon Grant in Amsterdam

Wolters Kluwer, the Dutch publisher that a week ago failed to agree a merger with rival Reed Elsevier, has produced annual results ahead of its self-assigned targets and intends to seek other acquisitions.

Net profits rose 21 per cent last year to F1,579m (\$288m), on sales ahead by the same proportion to F15,811m. Net earnings were F1,843m, a share fully diluted, up from F1,708 - a 20 per cent rise compared with an objective of 15 per cent annual growth for the rest of the century.

Expenses associated with the abortive merger deprived shareholders of 13 cents per share in earnings. Wolters Kluwer said the after-tax costs were F130 for the year. It increased the dividend to F1.34, paying out fractionally more than its promised 35 per cent.

The company said it would "continue to pursue its formulated growth strategy by means of organic growth and through acquisitions with undiminished energy".

Organic growth expanded 1997 revenues by only 4 per cent but generated a 14 per cent increase in operating income. At F1,239m this was in total 31 per cent higher, with positive exchange rate influences as well as take-overs accounting for the rest of the gain.

The group spent F1,837m on acquisitions last year, committing an additional F1,252m to deals that remained uncompleted by December. Purchases continued in February with a \$375m offer to buy Waverly, a US supplier of medical journals.

Wolters Kluwer said a reorganisation at CCH, a previous US acquisition, would be largely completed this year. That project accounted for two-thirds of its F1,139m outlay on restructuring. Provisions set aside for similar expected costs were only F1,46m last year, sharply down from F1,346m in 1996.

## NYSE plans European share study

By Jane Martinson in New York

The New York Stock Exchange is to approach several leading European companies to take part in a pilot study which it hopes will encourage a round-the-clock global marketplace for ordinary shares.

About 12 companies from a variety of sectors are to be picked as guinea pigs for a project which will allow them to trade ordinary shares on the world's largest stock market rather than their existing American Depositary Receipts.

Several companies have complained about lack of liquidity of the ADRs, which are listed on the NYSE, with 145 of them based in Europe. The list of about 12 will aim to encompass a broad range of companies, sectors and nationalities.

Mr Ugeux said the exchange wanted to "create a market which is more seamless, where the same security is recognised in any system". It has rejected a suggestion that the ordinary shares should trade in local currencies.

They will be denominated in US dollars.

Some 945 non-US companies are listed on the NYSE, with 145 of them based in Europe. The list of about 12 will aim to encompass a broad range of companies, sectors and nationalities.

Mr Ugeux said while the exchange could be ready to contact its target companies in the next few weeks, it could take another 12-18 months to roll out the programme.

Over the past eight years the proportion of US investors holding non-domestic shares has risen from 8 per cent to 10 per cent.

## Gulf Air returns to profitability

By Robin Allen in Bahrain

Gulf Air, the regional carrier owned by the governments of Abu Dhabi, Bahrain, Oman and Qatar, made operating profits of \$48m last year following a \$156m loss in 1996, president and chief executive Sheikh Ahmed bin Saif al-Nahyan said.

The airline, which made a loss of \$156m in 1996, amassed debts of \$1.6bn by the end of 1996. These have been cut to \$640m, according to Sheikh Ahmed, by the sale of 17 aircraft worth \$850m. Gulf Air, which has

market that exists for bonds," he said.

While some of the largest global companies enjoy very liquid trading in their ADRs, this is not the case for a majority of companies which are listed on both the NYSE and their domestic exchanges.

Mr Ugeux said the exchange wanted to "create a market which is more seamless, where the same security is recognised in any system". It has rejected a suggestion that the ordinary shares should trade in local currencies.

They will be denominated in US dollars.

Some 945 non-US companies are listed on the NYSE, with 145 of them based in Europe. The list of about 12 will aim to encompass a broad range of companies, sectors and nationalities.

Mr Ugeux said while the exchange could be ready to contact its target companies in the next few weeks, it could take another 12-18 months to roll out the programme.

Over the past eight years the proportion of US investors holding non-domestic shares has risen from 8 per cent to 10 per cent.

## EMERGING MARKETS RATING AGENCIES ARE CONFUSED OVER THE STATE OF THE ECONOMY

# Russia seeks to level debt mountain

By John Thornhill in Moscow

Last week, the financial experts at the Fitch IBCA credit rating agency reviewed the Russian economy and confirmed their BB+ long-term foreign currency outlook. Later in the week, the rival Moody's agency studied the same evidence and decided that greater caution was needed. It downgraded Russia's sovereign debt rating from Baa2 to Baa1.

Mikhail Zadornov, Russia's thoughtful finance minister, was not the only one to be baffled by such a stark divergence of views. "The agencies received from us totally objective information and drew conclusions that were the exact opposite of each other," he said. "This is like the philosophical argument about whether a glass is half empty or half full."

Yet if the rating agencies are confused about the current state of the Russian economy, then maybe they understand the situation all too well. Russia may have endured the worst of the financial buffeting that followed the Asian turmoil but it is still uncertain how the

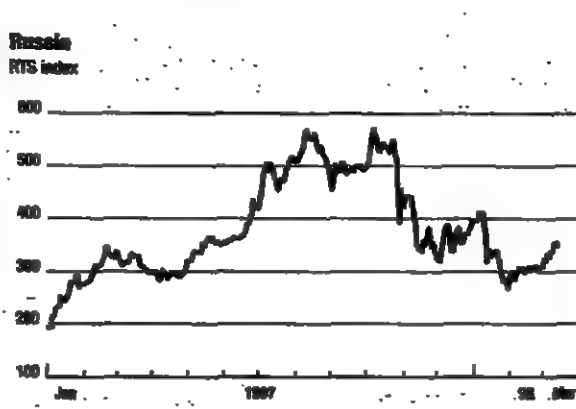
economy will turn out this year - especially after president Boris Yeltsin's latest health scare.

Those who argue that the glass is half full claim that Russia will soon re-enter the virtuous circle that began last year when the country finally reintegrated itself with international capital markets.

Peter Boone, co-head of research at Brunswick Warburg, the Moscow-based stockbroker, estimates \$10bn of foreign loans will flow into Russia this year as the federal and local governments and big corporations restart their international borrowing programmes.

"That capital will increase the liquidity in the economy and build up central bank reserves. We will see the money supply starting to go up, deposits and bank lending will increase, and that will improve all markets," he says.

"The economy is likely to grow 1.5 per cent in the first quarter and that rate will accelerate with the capital inflows. I think the situation is much better than most investors think at the moment."



Already, yields on Russian sovereigns, which shot up to 630 basis points over US Treasuries in November 1997, have narrowed again to less than 400 points over yields on domestic treasury bills (GKOs) have also tumbled to less than 30 per cent as investor confidence grows.

This month, the central bank has bought \$600m of foreign currency, rebuilding its reserves to about \$16bn. Such is its renewed optimism that on Friday it chopped six percentage points off the refinancing rate to 30 per cent.

There has always been a correlation between bond yields and equity prices in Russia, given the rudimentary state of the two markets. Consequently, share prices have risen strongly since late January as bond yields have fallen. The RTS index, which fell more than 88 per cent from its peak in October, has rebounded 32 per cent over the past six weeks.

"The equity market does not have a mind of its own at the moment. It is simply following the bond market," says John Paul Smith, Russia analyst at Morgan Stan-

ley. "But if tax collection does not go up by at least one-third by the spring, both the bond and the equity markets have serious problems."

The sceptics, who view the Russian glass as half empty, highlight the country's continuing problems with public finances as the biggest danger to its putative economic recovery - and stock market valuation.

Although, in theory, resource-rich Russia should have no trouble in sustaining a large volume of debt, it runs the risk of a short-term cash-flow crisis. This year, Russia will spend one-quarter of all federal expenditure - or 4.4 per cent of GDP - on servicing its internal and external debts, some 60 per cent of GDP.

So long as Russia runs a balanced primary budget deficit, sees a pick-up in economic growth, and achieves a real appreciation of the rouble, then this debt mountain should subside to a perfectly manageable proportion of GDP.

But, in the meantime, investors in the Moscow stock market will remain worryingly reliant on the assiduity of the tax man.

## 1997 RESULTS

CONSOLIDATED NET SALES  
FRF 89.2 billion  
+10.9%

CONSOLIDATED OPERATING INCOME  
FRF 4,297 million  
+21.4%

CONSOLIDATED NET INCOME, GROUP SHARE  
FRF 2,853 million  
before non-recurring items

FRF 2,630 million  
+27.4%

NET INCOME PER SHARE  
before non-recurring items

FRF 117.30  
+27.2%

NET DIVIDEND PER SHARE

FRF 39.0  
+21.9%

ADDITIONAL INFORMATION:

Internet: <http://www.pinault.com>  
Pinault Printemps-Redoute  
Investor Relations  
Catherine Zych - 33 (1) 44 96 63 25

## PINAULT PRINTEMPS-REDOUTE

THE GROUP MAINTAINS ITS SUSTAINED TEMPO IN SALES AND NET INCOME GROWTH AND TAKES ON A NEW INTERNATIONAL DIMENSION

The Supervisory Board of Pinault-Printemps-Redoute, chaired by Ambroise Roux, met March 11, 1998 and approved the group's 1997 audited parent company and consolidated financial statements, as presented by the Management Board.

| CONSOLIDATED INCOME STATEMENT                |        |        | CONSOLIDATED BALANCE SHEET |        |        |
|--|--------|--------|----------------------------|--------|--------|
| (in FRF millions)                            | 1996   | Change | (in FRF millions)          | 1996   | Change |
| Net Sales                                    | 80,394 | +10.9% | Fixed assets               | 27,696 | +11.3% |
| Operating income                             | 3,540  | +21.4% | Working capital            | 3,264  | +71.9% |
| Net financial expense                        | (221)  | -26.7% | Shareholders' equity (1)   | 17,751 | +12.4% |
| Income from ordinary activities before taxes | 3,319  | +24.6% | Provisions                 | 2,344  | +11.6% |
| Non-recurring items                          | (239)  |        | Net indebtedness           | 10,865 | +27.6% |
| Net income of consolidated companies         | 2,070  | +35.6% | (1) Group Share            | 15,167 | +16.0% |
| Share in earnings of equity affiliates       | 570    | +17.7% |                            |        |        |
| Net income for the year                      | 2,065  | +38.2% |                            |        |        |

The group reports new operating achievements

The group's accelerated expansion in 1997 resulted from its sustained growth policy and effective market-share gains, store openings (France, Conforama, Redoute), the publication of new catalogues (among which AM, PM, Printemps, Cylindus and Vertbaudet UK), the introduction of new concepts (such as Frac Junior and Frac Telecom), and entry into new specialty distribution business lines, with Bernard SA, for example. The group's last growth is also due to acquisitions that are significant both in terms of size (Elo, Boad, and the opportunities they present for future development, such as Cocom in Latin America). Furthermore, the group's accelerated expansion reflects its growing internationalisation. The share in sales generated outside France increased from 30.6% in 1996 to 35.4% in 1997. Finally, in 1997 the group confirmed its vocation in specialty distribution with the disposal of Pinaut, its only food-related distribution company.

Consolidated net sales rose 10.9% in 1997 to FRF 89,179 million, compared with FRF 80,394 million for 1996. An accelerated 4th quarter increase in company sales enabled the group to sustain a growth rate exceeding its targets. Sales in the group's Retail Division rose 6.6% (to FRF 48,905 million), while Wholesale Division sales rose by 19.5% (to FRF 33,768 million), and International Trade Division sales increased by 4.1% (to FRF 6,505 million). At constant exchange rates and on a constant structural basis, group sales rose 3.9%, with sales by division increasing by 6% (Retail), 1.2% (Wholesale), and 3.1% (International Trade).

Consolidated operating income was up 21.4% in 1997 to FRF 4,297 million, versus FRF 3,540 million for 1996. Each division continued to raise gross margin and improve productivity. At the same time the operating expense level was kept under control. The group's operating ratio thus increased by a 0.4 percentage point to 4.8% in 1997. This favorable trend was achieved despite the introduction of new concepts and their build-up which reduced operating income by some FRF 40 million.

Net financial expense was down sharply to FRF 162 million, as opposed to FRF 221 million the year before. The drop in interest rates and the increase in suppliers' prompt payment discounts made it possible to absorb new financial expenses related to the increase in average indebtedness.

Non-recurring items principally include FRF 693 million in pre-tax capital gain from the Pinaut disposal and FRF 257 million in exceptional provisions.

Share in earnings of equity affiliates came to FRF 671 million in 1997 versus FRF 570 million the previous year. The Financial Services Division's contribution to these figures represented 16.3% increase over 1996 for a 1997 total of FRF 629 million. In 1997, this Division's outstanding and production increased by 22.7% and 18.6% respectively over the previous year. The Division's figures for 1997 include Elo's financial activities since July.

Goodwill amortization came to FRF 261 million, versus FRF 225 million in 1996, mainly the result of company acquisitions and minority shareholder buyouts carried out by the group in 1997.

Financial structure and cash flow allow room for new developments

Group acquisitions during the year led to an increase in net indebtedness which amounted to FRF 13,866 million, versus FRF 10,865 million at year-end 1996.

The debt to equity ratio increase remained contained, however, and at year end stood at 0.69 as opposed to 0.61 at year-end 1996. Cash flow, which amounted to FRF 3,945 million versus FRF 3,326 million in 1996, easily covered financing requirements for 1997 expenditures on operating assets which totaled FRF 1.9 billion. In addition, the group devoted FRF 4.9 billion to acquisitions and equity investments during the year.

Subsequent events and outlook

In early 1998, the group continued its stepped up policy of developing its subsidiaries:

- Retail took control of Ideal Australia (FRF 480 million sales) and Ideal New Zealand (FRF 340 million sales), after having acquired the activities of G.E.C. in those two countries (sales of FRF 1.6 billion).
- La Redoute signed an agreement to acquire 47.5% of Byline, the 4th largest catalog retailer in the United States (sales FRF 8.1 billion).
- Frac and La Redoute took a 70% shareholding in the French educational toy catalog company Erel et Jeux (sales FRF 120 million).

The group also committed itself to a new business line with the acquisition of the founders' 47.2% shareholding in Guilbert, a leading European distributor of office supplies and equipment. The group is also pursuing an active policy of internally generated growth. These transactions, all in keeping with the determination to internationalize the group, will enable it by the end of 1998 to generate 45% of its sales outside France and operate in 40 countries worldwide.

Since the start of the year, the favorable trend observed in late 1997 seems to be holding. By the end of February, excluding 1998 acquisitions, net sales had advanced by 9.5%. Nevertheless, over the short and medium term, management remains very conservative in its consumer spending assumptions. For the remainder of the year, the group will continue to pursue its expansion objectives both in France and abroad, while paying still greater attention to productivity and operating costs.

PARENT COMPANY FINANCIAL STATEMENTS

The Supervisory Board also reviewed the financial statements of the parent company, Pinaut-Printemps-Redoute. Income from ordinary activities amounted to FRF 630 million at December 31, 1997 compared with FRF 677 million of year-end 1996. Net income totaled FRF 1,738 million for 1997 versus FRF 1,774 million at December 31, 1996. A dividend payment of FRF 39 per share will be proposed to the General Meeting, plus a tax credit of FRF 19.50. The proposed dividend would represent an increase over the previous year of 21.9% and would be paid July 1, 1998.

## FIDELITY SPECIAL GROWTH FUND

Société d'Investissement à Capital Variable  
Investments House - Place de l'Étoile  
B.P. 2174, L-1021 Luxembourg  
R.C. Luxembourg B 20095

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of Fidelity Special Growth Fund, a Société d'Investissement à Capital Variable registered under the laws of the Grand Duché de Luxembourg (the "Company"), will be held at the registered office of the Company, Investments House, Place de l'Étoile, Luxembourg, at 11.00 a.m. on March 26, 1998, specifically, for the following purposes:

1. Presentation of the Report of the Board of Directors
2. Re-election of the Board of Directors
3. Approval of the balance sheet and income statement for the financial year ended November 30, 1997
4. Discharge of the Board of Directors and the Auditor
5. Election of five Directors, specifically the re-election of Messrs. Edward C. Johnson 34, Barry R.J. Bennett, Charles A. Foster, Jean Deschamps and Richard P. Davis and the acknowledgment that the seat of Mr. Charles T.M. Collins has expired
6. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg
7. Declaration of a cash dividend in respect of the financial year ended November 30, 1997
8. Consideration of such other business as may properly come before the Meeting

Approval of items 1 through 8 of the agenda will require the affirmative vote of a majority of the shares present or represented at the Meeting with no minimum number of shares present or represented in order for a question to be passed.

Subject to the limitations imposed by the Articles of Incorporation of the Company with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A Shareholder may act at any Meeting by proxy.

Dated: February 3, 1998  
By order of the Board of Directors

Fidelity Investments







## CURRENCIES &amp; MONEY

## Drachma faces test

By Simon Kuper

The Greek drachma makes its debut in the European exchange-rate mechanism and it could prove a volatile one. The 11 other currencies in the ERM barely move against one another, but the market may test the appropriateness of the drachma's central rate.

Traders will also be watching sterling closely to see if it rises or crashes. UK data expected this week suggest the former.

Sterling took off last Wednesday after the Bank of England's monetary policy committee revealed how torn it was over base rates. The committee has left them untouched at 7.25 per cent since November, but in its January meeting three out of eight members supported a rate rise.

The minutes of the committee's February meeting, released on Wednesday, revealed that the vote had tightened to four-all. Eddie George, the Bank governor,

had to use his casting vote to secure unchanged rates.

The market now believes that UK rates may go higher. Even if the Bank believed that rates would rise only once more, currency strategists argue, it would say so. That would ease prospects for endless rate increases, and might therefore stop the pound's ascent. That no official has said any such thing is bolstering sterling.

The pound ended last week at its best level since August 1997 above DM3.05 against the D-Mark. The five-and-a-half-year peak, just above DM3.08 reached in July 1997, is approaching.

Tomorrow's Budget is likely to offer only modest fiscal tightening. UK retail prices, also due tomorrow, are forecast to rise by a sharp 3.3 per cent, although the underlying rate is expected to hit the Bank's target of 2.5 per cent.

Average earnings for January out on Wednesday are expected to show continuing strong growth of 4.75 per cent.

## POUND SPOT FORWARD AGAINST THE POUND

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |
| Asia          | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |
| Africa        | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |
| Latin America | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |
| Middle East   | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |
| Other         | 21.261    | 21.261    | 21.261       | 21.261     | 21.261   | 21.261    | 21.261     |

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## CROSS RATES AND DERIVATIVES

## EXCHANGE CROSS RATES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## WORLD INTEREST RATES

## MONEY RATES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## EURO CURRENCY INTEREST RATES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## OTHER CURRENCIES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## UK INTEREST RATES

## LONDON MONEY RATES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## BENCHMARK GOVERNMENT BONDS

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## BANK OF ENGLAND TREASURY BILL TENDER

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## UK GILTS PRICES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## BASE LENDING RATES

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## OTHER FIXED INTEREST

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## LEGAL NOTICE

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## LEGAL NOTICE

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## LEGAL NOTICE

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## LEGAL NOTICE

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |

## LEGAL NOTICE

|               | Overnight | One month | Three months | Six months | One year | Two years | Five years |
|---------------|-----------|-----------|--------------|------------|----------|-----------|------------|
| Europe        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Asia          | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Africa        | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Latin America | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Middle East   | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |
| Other         | 1.0000    | 1.0000    | 1.0000       | 1.0000     | 1.0000   | 1.0000    | 1.0000     |











## FT MANAGED FUNDS SERVICE

FT Offshore Unit Trust Prices: 0800 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute of all times. International access available by telephoning only. For more details call the FT Offshore Help Desk on (44) 1773 823 4378.

OFFSHORE  
AND OVERSEASBERMUDA  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

BERMUDA  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

GUERNSEY  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

GUERNSEY  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

IRELAND  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

IRELAND  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

IRELAND  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

IRELAND  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

JERSEY  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

JERSEY  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

JERSEY  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

JERSEY  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

ISLE OF MAN  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

ISLE OF MAN  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

ISLE OF MAN  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

ISLE OF MAN  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

LUXEMBOURG  
(FSA RECOGNISED)

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

LUXEMBOURG  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

LUXEMBOURG  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

LUXEMBOURG  
(REGULATED)\*\*

| Fund Name           | Unit Price | Change | YTD % |
|---------------------|------------|--------|-------|
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |
| First City Fund Ltd | 1.00       | 0.00   | 0.00  |

**FREE OFFER**

For Every Investor Who Wants To  
Make Serious Money From The  
Exciting Penny Share Market

To receive a FREE copy of PENNY SHARE GUIDE, Britain's No. 1  
publication for tipping exciting smaller company shares PLUS an  
exclusive FREE market report pack including details of how to claim a  
FREE copy of 'The Investor's Guide to How the Stock Markets Really  
Work' published by the Financial Times/Pitman Publishing, simply...

**CALL NOW ON  
FREEPHONE:  
0500 823873**

Approved by First Street Publications Ltd, who are  
regulated by the Financial Services Authority.  
Registered Office: 271 Regent Street, London W1B 7TH.

The offer is not a recommendation to buy or sell securities. Investments in market conditions generally have  
a higher risk than those in a stable market. Investors should consult their advisers. This investment is not suitable  
for everyone. If you have any doubts, you should obtain expert advice.

0500 823873



**FT MANAGED FUNDS SERVICE**

## Offshore Funds and Insurances

**FT MANAGED FUNDS SERVICE**

[illegible]



● FT Chryslers Link Trust Between did 0000 430000 and less in a 5.6% note listed below: Calls are charged at 50¢ per minute at all times. International access available by subscription only. For more details call the FT Chryslers Help Desk on (+44 171) 873 4378.

100-111015-10







**4 pm close March 13**

**BE OUR GUEST.**

---

*AO*

---

**ARABELLA**  
GRAND HOTEL  
FRANKFURT AM MAIN  
\*\*\*\*\*

When you stay with us  
in **FRANKFURT**  
stay in touch -  
with your complimentary copy of the

**FINANCIAL TIMES**  
No FT, no comment.

4/21/50



هكذا من الاصل

| Year | Percentage |
|------|------------|
| 1960 | 14.0       |
| 1965 | 16.0       |
| 1970 | 15.5       |
| 1980 | 18.0       |
| 1990 | 16.0       |

The line graph shows the number of new cars sold in the U.S. from 1995 to 1999. The y-axis represents the number of cars sold, ranging from 0 to 1,000,000 in increments of 200,000. The x-axis shows the years from 1995 to 1999. The sales start at approximately 200,000 in 1995, rise to 400,000 in 1996, 600,000 in 1997, 750,000 in 1998, dip slightly to 700,000 in 1999, and then rise again to 850,000 in 2000.

| Year | Number of New Cars Sold (Approx.) |
|------|-----------------------------------|
| 1995 | 200,000                           |
| 1996 | 400,000                           |
| 1997 | 600,000                           |
| 1998 | 750,000                           |
| 1999 | 700,000                           |
| 2000 | 850,000                           |

| Change | High   |
|--------|--------|
| +17.0  | 3598.0 |
| +17.0  | 3599.0 |
| +51.5  | 4917.0 |
| +52.0  | 4943.0 |

| Mar '71                            | 1969/70<br>High |
|------------------------------------|-----------------|
| 044/70                             | 045/69 079/70   |
| total income (excl. dividend)      | 100             |
| 375/69                             | 458/67 508/67   |
| 67/67                              | 68/69 043/69    |
| 481/67                             | 740/69 079/70   |
| total paid by Japanese firms       | 100             |
| 508/69                             | 504/68 130/69   |
| Profit's share                     | 24              |
| 256/62                             | 34/76 69/67     |
| 256/64                             |                 |
| 137/61                             | 138/65 130/69   |
| 137/61                             | 138/65 130/69   |
| 245/62                             | 247/60 130/69   |
| 107/64                             | 104/63 186/69   |
| 94/60                              | 108/63 108/69   |
| 128/61                             | 108/63 108/69   |
| 136/49                             | 104/65 309/69   |
| total of 17 Japanese public funds  | 100             |
| 17/65                              | --              |
| 71/67                              | 137/65 250/69   |
| total for Japanese problem         | 100             |
| 42/64                              | 138/68 119/69   |
| total paid Japanese firms          | 100             |
| 70/62                              | 71/69 130/69    |
| 196/71                             | 125/68 130/69   |
| 196/71                             | 125/68 130/69   |
| total paid Japanese firms          | 100             |
| 224/62                             | 208/64 221/67   |
| total from American on the deposit | 100             |
| 63/66                              | --              |
| total                              | 100             |
| 218/63                             | 228/69 229/69   |
| 101/62                             | 228/69 229/69   |
| not covered for their respective   | 100             |
| 192/43                             | 238/49 197/67   |
| company assets on the              | 100             |
| 738/42                             | 344/68 320/67   |

## THE NASDAQ STOCK MARKET

## AMEX PRICES

[illegible]







# PHARMACEUTICALS

The spate of mergers and acquisitions in the industry reflects weakness rather than strength and, predicts Daniel Green, the dealmaking is likely to continue

## Uniting against a sea of troubles

To merge or not to merge. That is the question pharmaceutical industry executives are asking themselves. On the one hand they could suffer the morale-damaging uncertainties of bringing two separate businesses together. On the other, they might have to slug it out alone in a world where competitors move fast and customers are powerful.

The merger question has been on board meeting agendas for years.

One former executive with US company American Home Products - whose merger talks with the UK's SmithKline Beecham were aborted in January - says its board of directors maintains a list of potential merger partners. Once a year it pulls out the list and debates whether or not to make a move.

A senior executive from a rival company, upon hearing this, expressed surprise that this happened only once a year.

The \$200bn-plus of pharmaceutical industry mergers and acquisitions over the past five years demonstrates how enthusiastic companies are about getting together. Yet everyone in every industry knows that mergers are hell.

"For any executive conducting a merger, it means two years of job insecurity, saying goodbye to spare time at evenings and weekends, all for, possibly, a small pay rise at the end," says one pharmaceutical company consultant.

There are salutary examples in the pharmaceuticals business of how merger hell can last a long time.

Swedish company Pharmacia and its US rival Upjohn merged in late 1996. Since then, the company has had a series of profits warnings, lost a chief executive and, if its employees are to be believed, provided an object lesson in how cultural differences can destroy jobs and shareholder value.

New chief executive Fred Hassan has changed his entire board of directors bar one, moved headquarters from London to the US and is still wrestling with damaged sales and morale.

Pharmacia & Upjohn is an extreme example of what can go wrong after a merger but, according to the work of some management consultants, the evidence that any mergers do good is scanty. AT Kearney, the US management consultancy, says that companies which took part in the \$100bn-plus mergers and acquisitions spree of the past decade "have generally had lower economic returns" than those that did not.

So why do they do it? The answer can be summed up in the regular response to research such as AT Kearney's: those companies would have done even worse if they had not merged.

Just about every large merger or acquisition in the pharmaceuticals industry has been driven by the need to solve problems.

In 1996, SmithKline Beecham's huge research effort

had failed to find a replacement for its ageing star product, ulcer drug Tagamet. Beecham was in a similar position, with great antibiotics but little else. Within months of their merger, SmithKline Beecham announced 5,000 job cuts.

The following year, profits rose 19 per cent in spite of the unmerged companies' difficulties.

Similar stories are told by the mergers of the likes of American Home Products and American Cyanamid in 1994, Glaxo and Wellcome in 1994, Roche and Syntex in 1994, and more.

While most senior executives at the companies involved insist that these were all good deals, cracks can sometimes be found. Henri Meier, chief financial officer at Roche, smiles enigmatically when asked whether the \$5.3bn spent on Syntex would not have produced better returns as part of Roche's cash pile.

Sometimes problems are acknowledged more openly. US company Eli Lilly last summer took a \$2.4bn charge to reflect the fall in value of PCS, a drug distributor it bought in 1994 for \$4bn.

But the norm is to keep quiet: SmithKline has not made a write down on DPS, the distributor it bought for \$2.8bn also in 1994, even though, four years later, it is still making losses.

So it should not be surprising that some of the companies involved in making the big deals happen, return to the theme repeatedly. Smith-



Kline and AHP were in merger talks in January and Glaxo and SmithKline in February. And, in May 1997, Roche paid \$11bn for German diagnostics company Boehringer Mannheim.

Two that have not are Eli Lilly and Merck, which made a \$6bn acquisition of a distributor in 1998, firing the starting pistol on the drugs industry mergers and acquisitions spree, but has not made any foray since then.

What do these companies have in common with each other and with others that have avoided playing the mergers and acquisitions game?

The answer is rapid growth generated by new products.

For Lilly it has been Prozac, the anti-depressant, and Zyprexa, for schizophrenia. Merck is the world leader in the biggest medical area, heart drugs.

Other companies that have eschewed mergers and acquisitions have also had fast growing products.

Pfizer, for example, has three products with sales beating \$1bn a year and another - Viagra - that could be launched this year. Viagra, for male impotence, has been tipped by some analysts as a future world's number one best seller.

All of this suggests that companies announcing

mergers are declaring to the world that they have problems that can only be addressed in this drastic fashion.

That does not necessarily make the merger a bad move; it might be the best thing to do under the circumstances.

As one chief executive of a merger-ahy company said this month about the possibility of Glaxo merging with SmithKline: "It would be

slash-and-burn cost-cutting. But in their position I would do the same."

To that extent, mergers and acquisitions seem inevitable. R&D cannot guarantee to produce new products; an unlucky streak can leave a company without the goods to make up for an older product losing patent protection.

So, if such dealmaking is inevitable, what is the best way to do it?

A survey of pharmaceutical industry executives that have been through the merger process produced a, perhaps, surprising result. The most important success factor, said the executives, was "creating a new company". It came in ahead of "realising cost and sales synergies", "managing people" and "focusing the portfolio".

This lesson is strikingly seen in the relative fortunes of the two big mergers of 1996. Swiss companies Ciba and Sandoz agreed a friendly merger to form Novartis. Ciba management, in particular, had memories of the years following the 1970s merger of Ciba and Geigy when employees still identified with one of those two names rather than the new company. Today, Novartis is one of the more successful merged companies.

Contrast that with Pharmacia & Upjohn, where language and geography contributed to the damaging maintenance of the two company cultures. If Glaxo and SmithKline ever do merge, it will be interesting to see if they choose to sweep away the old names.

Many of those involved in successful mergers think the best way of proceeding is to destroy the old to build the new. Dan Vassila, Novartis chief executive, puts the case compellingly: "People must look to the future, not the past."

Dealmaking will continue in the pharmaceuticals industry as long as R&D is unpredictable. That means that the dismantling and reconstruction of companies will continue too. When senior executives want continuous growth, there seems little alternative.

For Hoechst, Life Sciences means focusing on the fields of health and nutrition where biotechnology holds the key to innovation. Hoechst Marion Roussel, our pharmaceutical company, is developing highly effective drugs in the fight against currently incurable diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through integrated crop production.

The Future in Life Sciences **Hoechst**

Life Sciences means a new future for health and nutrition.

Hoechst means a new future in Life Sciences.



## 2 PHARMACEUTICALS

HEALTH ECONOMICS • by Simon Eckett

## Balancing more for less

Higher drug costs often translate into lower overall healthcare costs

Pharmaceutical companies are growing at an unprecedented rate. In the 1996/97 financial year Merck grew by 19 per cent; Pfizer by 16 per cent; Astra by 16 per cent and SmithKline Beecham by 10 per cent. The US continues to dominate world markets with 16 per cent growth in value terms to September, 1997.

Such growth is astonishing. Yet, it was only five years ago that a more demanding breed of purchasers – private managed care organisations in the US and public purchasing bodies across Europe – keen to drive down prices and volumes through the use of "evidence-based medicine" and formularies, appeared likely to threaten the success of the industry.

There was even talk of an additional hurdle, subsequently introduced in Canada and Australia, obliging pharmaceutical companies to produce economic data before receiving reimbursement approval.

Many executives felt health economics posed the greatest threat to growth and profitability.



Drug solutions medicines enabling treatment outside hospital are cost-effective

Tony Andrews

That threat appears to have receded. In part, this is due to the purchasers themselves, who have found that pharmaceutical products can be more cost effective than other more capital or people-intensive interventions.

France's health secretary conceded last month that innovative pharmaceutical products can save money in other parts of the health care system such as hospitals. In Germany, new

research shows that outpatient spending on medicine is growing significantly as the country's statutory health insurers shift patient care, particularly chemotherapy and dialysis, out of hospitals. In the US, the managed care organisations themselves appear to be driving the market's recent growth.

Such a shift in purchasers' perceptions could not have happened without:

- the development of innovative drugs for complex diseases that previously required in-patient hospital treatment.
- the production of relevant and persuasive economic evidence.

The Canadian Co-ordinating Office for Health Technology Assessment recently demonstrated that Clozapine, a treatment for schizophrenia developed by Novartis, could save the Canadian

healthcare system C\$389m in annual direct costs, mainly due to reduced hospitalisation, compared to increased drug expenditure of C\$63m.

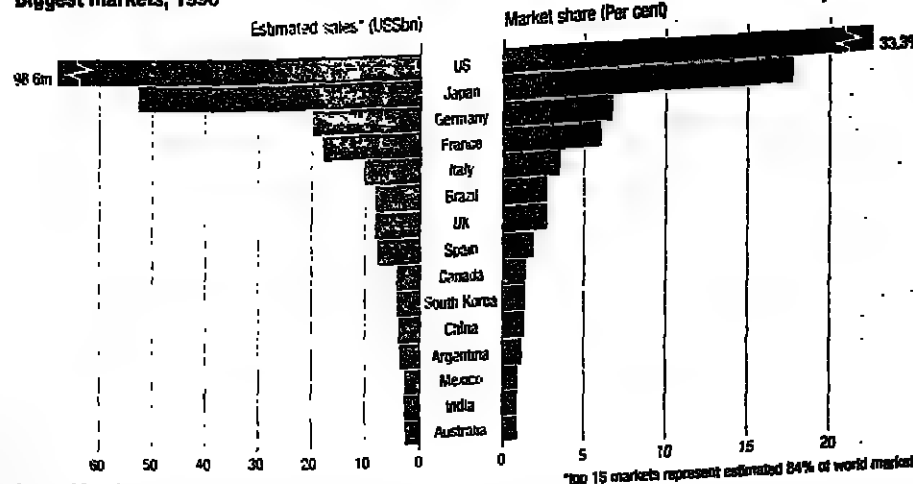
Central Nervous System (CNS), a therapeutic sector which includes schizophrenia, depression and Alzheimer diseases, is the fastest growing segment in the US market. Combination therapy with Retrovir and Efavir, plus a protease inhibitor, can reduce the AIDS virus to undetectable levels in some patients.

According to Glaxo Wellcome, the annual cost of combination therapy ranges from \$10,000 to \$16,000 while the cost of treating AIDS in a hospital in the US is estimated at \$100,000 per year.

For purchasers such expenditure and investment decisions are not straightforward. Often cost savings are not directly related to the purchaser themselves. A product may reduce time off work or hospitalisation, but increase drug costs for which a particular purchaser, for example a GP with a limited budget, is directly responsible.

A new innovative drug may be more expensive than a "cheaper" alternative, yet reduce comparative hospitalisation rates and other costs. That will make it more cost effective, but have an adverse impact on a purchaser's drug budget.

Biggest markets, 1996



Alternatively, costs are so entrenched in the healthcare system that they cannot be reduced despite the existence of a cost effective alternative. Some pharmaceutical companies work directly with purchasers and providers to re-engineer the delivery of healthcare services and gain the full value of a drug's intervention.

A "value in use" study saw a pharmaceutical company work with hospitals and GPs to introduce a cost effective domiciliary care service for cancer patients. Drug costs increased, but expensive hospitalisation was reduced.

Such work is data intensive. Pharmaceutical companies are re-aligning their global health economics departments with their clinical and marketing efforts to ensure they capture and disseminate all the relevant data.

Glaxo Wellcome has combined its R&D and marketing into a single entity that reports to the research and development side of the business. According to Dr Francois Schubert, Glaxo Wellcome's Worldwide Director of Health Outcomes, "Our work load has increased significantly over the last few years. In addition to producing increased economic and quality of life data for decision-makers and purchasers around the world, we are involved in product investment decisions from discovery right through to Phase IV trials. That requires a fully coordinated team with global reach and impact."

Health economics has encouraged pharmaceutical companies to focus their research efforts on innovative cost effective treatments and helped purchasers to

refine their understanding of increased drug budgets.

Over the past five years purchasers have challenged pharmaceutical companies to deliver cost effective products for treating their most complex and chronic diseases, such as schizophrenia, cancer and asthma.

Pharmaceutical companies that have responded to the challenge are now reaping the rewards of higher sales and profitability.

The challenge is a tough and a constant one. In many European markets, where pharmaceutical growth rates are not as high as in the US, public purchasers have yet to be persuaded that higher drug costs translate into lower overall healthcare costs. Given their traditional scepticism they will take some convincing.

Simon Eckett is a consultant at Deloitte Consulting/Brazon Associates

STRATEGY • by Daniel Green

## A growing dilemma

The question is whether to go for big and efficient or small and innovative

There are few issues likely to set pharmaceuticals industry executives arguing more than that of whether bigger companies are more efficient than smaller ones.

The question goes to the heart of whether the series of mergers and acquisitions that has dominated the industry's strategic thinking since 1983, addresses shareholders' demands for higher growth.

The pro-big company argument is articulated every time there is a large merger or acquisition. When SmithKline and Glaxo, for example, were in merger talks last month, they said each company's strengths made up for the other's weaknesses in research and development.

Specifically, Glaxo is strong in automated chemistry (which more usually goes by the technical name of combinatorial chemistry) in which thousands of different molecules can be prepared in a week.

SmithKline is strong in the genetic research that has thrown up too many avenues of research for it to follow. Bringing the two together might have made it possible to test Glaxo's molecules against SmithKline's targets.

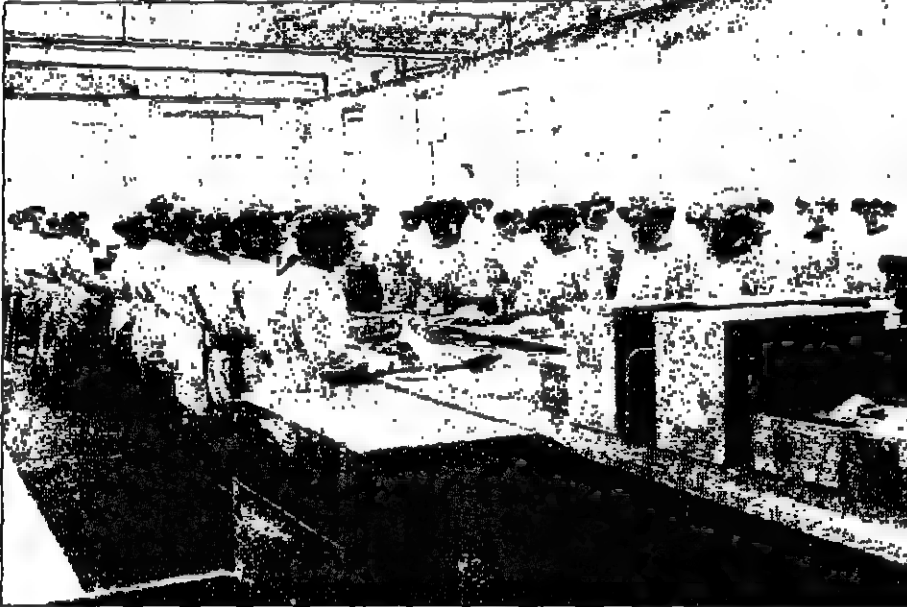
Other mergers, such as that between Swiss companies Ciba and Sandoz to form Novartis, argue for complementarity in product lines, rather than R&D.

In all cases, of course, there are cost savings to be made through workforce cuts and plant closures. These lead to some of the most persuasive arguments in favour of scale, the ability to secure a given level of sales with lower costs.

The anti-merger argument has been articulated rather more quietly. Proponents have included chief executives, notably SmithKline Beecham's Jan Leschly, stock market analysts and management consultants.

The argument, most obviously in a version published by Andersen Consulting in October 1997, runs as follows: to keep pace with the average industry growth rate of 10 per cent a year, the top 10 companies will each have to launch five important new drugs a year, with each reaching annual sales of \$380m. But, between 1990 and 1994, companies in the industry launched an average of only 0.45 new drugs a year, as opposed to improved versions of existing drugs. And only 8 per cent of products launched reached sales of \$350m.

Even mid-sized companies will have to launch three new drugs a year to grow at industry average rates, says the management consultants, so the question is whether these large companies can generate the productivity to match their scale.



Speed: the industry is characterised by rapid, and continuing, change

The case was put more pithily by Sir David Barnes, chief executive of UK drugs company Zeneca, at his company's annual results presentation.

He was discussing the challenges that would face Glaxo Wellcome and SmithKline Beecham, Zeneca's two larger UK rivals, if they merged.

"Over the last few years we have been launching drugs at a rate, on average, of more than one a year. If those two companies merged, they would be four or five times larger than that. Consider how many drugs they would have to launch a year to grow at our pace."

Sir David struck at the heart of the size/efficiency debate. Few argue with the idea that larger companies can manufacture more efficiently. This is especially true of the pharmaceuticals sector where there has been political pressure to manufacture in the countries where drugs are sold. Siting a plant helps smooth the path towards approving a high drug price. But, after a merger, the new company often has two plants per country and one is usually closed.

Nor, of course, is there debate about the benefits of having only one headquarters operation instead of two. And sales forces have to be large enough to cover all doctors in a given territory, with each sales executive selling a range of products.

Experience suggests that these overlaps can be cut to boost profits growth for one or two years. What happens after that depends on whether doubling the size of the research and development operation more than doubles its output.

It is a difficult change to measure but there is evidence to suggest that, beyond a certain size, R&D becomes less efficient.

Management consultancy Gemini Consulting calculates that adding an extra dollar of spending gives the biggest incremental increase in output with budgets of between \$400m and \$900m a year. In people terms, increasing headcount once the 60,000 employee mark is

reached is progressively less effective.

There is also counter evidence from the biotechnology sector, where companies typically consist of a few hundred (at most) employees, the majority in research and development. The US biotechnology industry association claims that the typical cost of drug development in the sector is little more than \$100m. This compares with the \$300m to \$800m range usually attached to drug discovery and development in the mainstream pharmaceuticals sector.

Eran Broshy and Gayatri Sindhia, at Boston Consulting management consultants in New York, have identified several ways by which companies can try to boost their research and development productivity without having to merge.

"Critical mass and scale are shrinking, with barriers to entry coming down through outsourcing," says Mr Broshy. "Scale is becoming less of an issue."

He points to the rapidly increasing use by pharma-

ceuticals companies of biotechnology company partners as a means of outsourcing research and so-called contract research organisations, which actually carry out clinical trials, the D in R&D.

They also point to regulatory harmonisation, which is being pursued by health regulators in Europe, the US and Japan, as a means of cutting red tape, and to new developments in the conduct of clinical trials to increase the chance of their success through better pre-selection of patients.

They note "resistance" by drugs companies to this last item: they fear that narrower groups of patients will result in smaller markets for each drug.

The question that is much more difficult to answer is whether this kind of approach will boost R&D enough to persuade chief executives bent on mergers to change their minds. It is a question that cannot be answered in any laboratory, only in the real world of business.

## Does your pharmaceutical company

need to grow faster, grow smaller or grow somewhere new?

Quintiles introduces Total Outsourcing: New Strategic approaches to a wide range of business and medical situations.

What to do, how to get there

Everybody knows about outsourcing. But in the pharmaceutical industry it has traditionally been applied piecemeal—project by project, phase by phase or even site by site.

Quintiles offers a totally new approach: *Total Outsourcing* as a strategic tool to manage major corporate issues as well as complex drug development projects. For example:

#### Total Outsourcing to manage complex drug development projects

Many of today's multi-site, multinational drug development projects require a massive staff and infrastructure for a relatively short period of time. *Total Outsourcing* to Quintiles is far more efficient than building an organization internally and then dismantling it, or outsourcing isolated segments of the project and trying to coordinate them all internally. In addition to speeding new products to registration, Quintiles actually enhances sponsors' control throughout the drug development process. Our QNET® software, for example, puts lab results on your desktop PC the next morning, anywhere in the world, for more timely information and earlier decision making.

#### Total Outsourcing to ease restructuring

One Quintiles customer needed to divest its entire Scandinavian research operation. *Total Outsourcing* to Quintiles enabled them to avoid the repercussions of having to shut down a substantial business unit. Quintiles was able to increase the operation's productivity to make it economically viable and, in fact, a significant addition to Quintiles' resources. So *Total Outsourcing* preserved a valuable asset—in terms of both facilities and staff experience—and made it more widely available to the drug development community.

#### Total Outsourcing as a cost-effective approach to geographic expansion

A global presence is increasingly important to pharmaceutical companies, but physically building facilities and hiring staff in still-developing areas can be a prohibitive drain on limited resources—and an expensive mistake if those outposts fail to develop into successful business units. Quintiles has already established a strong presence in Eastern Europe, China, India, South East Asia and South America, and can easily represent your interests there. In addition to being faster and less expensive than doing it yourself, *Total*

*Outsourcing* to Quintiles also gives you access to Quintiles' unmatched depth of expertise in both therapeutic specialties and geographic customs, procedures and regulatory environments.

Chances are, your Medical Director and staff have already discovered the value of outsourcing to Quintiles. Now it's time for your CFO, CEO and Board of Directors to explore the strategic advantages of *Total Outsourcing* in any number of situations where traditional outsourcing might not even be considered.

Please contact us for an informative exploration of the possibilities, as well as demonstrations of how our customers have successfully put *Total Outsourcing* to work.



QUINTILES

US: Jim Ogle, 919 941 2888 Europe: Anne Wiles, +44 1344 749200 Asia: Ellick Wong, +65 872 0429 <http://www.cro.quintiles.com>

© Copyright Quintiles 1998. A Napco 100 company

Handwritten signature or stamp at the bottom of the page.



EMERGING MARKETS • by Jeff Devlin and Paul Hemsley

# Development demands equal treatment

Neglect is being replaced by targeted research and assessment of specific needs

For most large drugs companies, the traditional approach towards emerging markets has been to launch existing, often old, products originally developed for mature economies. Until recently, few have tried to analyse the medical or economic needs in emerging markets. Nor has there been much research and development directed towards the development of products to meet these needs.

This apparent lack of interest has been strongly influenced by competition policies which have appeared to be unfavourable to multinational pharmaceutical companies. These have included price controls, generic competition, the lack of intellectual property protection and restrictions on 100 per cent foreign ownership. These have posed major problems to drugs companies in Asia Pacific and Latin America.

Furthermore, emerging markets have tended to have low healthcare spending compared with mature markets. In India, 1 per cent of gross domestic product is spent on healthcare, compared with about 12 per cent in the US and 6 per cent in Japan.

However, that is no longer such an obstacle as growth

rates in some emerging markets outstrip those in developed ones.

Over the past five years, the European and North American markets' average annual growth rates have been 6 and 7 per cent respectively. Competition has become more intense, and some governments have introduced measures to control spending on drugs.

At the same time, the sheer size of some of the emerging markets and their potential for growth mean they can no longer be neglected.

Regions such as Latin America have grown at an estimated 15 per cent a year over the past five years. This is dramatic compared with mature economies. But, size and rate of growth are not, in themselves, attractive enough if the trading environment is hostile.

Now, however, the trading environment may be improving. Patent protection has been improved for World Trade Organisation members under the General Agreement on Tariffs and Trade (GATT) Trade Related Intellectual Property Rights (TRIPS). This makes their patent legislation comparable with developed countries' standards by 2000/2005.

In addition, some countries, such as India, have liberalised equity controls and procedures to encourage competition and inward investment in high tech industries.

In spite of this, countries such as India are perceived



Sympathetic treatment: drug companies must work with developing countries, such as India and Brazil, to have an impact in emerging markets



Ray White/Asbury Network

to be dragging their feet with early enactment of legislation.

Not all markets are equally attractive. In Latin America, for example, economic reform may have curtailed the boom-bust cycles of many markets but significant variations exist within the region.

The Mercosur trade pact, consisting of Brazil, Argentina, Paraguay and Uruguay, with free trade deals agreed with Chile and Bolivia, has served to encourage differential foreign investment and will further stimulate trade among member countries.

Similarly, China, with a population of more than 1.2bn and in excess of 65,000 hospitals, might appear to offer widespread opportunities for pharmaceutical companies. In reality, most companies will only be able to access small sections of this huge market. In the next century, the Chinese phar-

maceutical market could become one of the largest in the world, but this growth will be largely driven by increasing affluence among some urban populations.

Some products which have been developed primarily for Western markets will not be suitable for emerging territories because they cost too much.

In developed markets, solutions for the target disease have tended to focus on the delivery of high value/innovative products. For emerging markets, more appropriate solutions might include low priced/high volume products developed using older technologies.

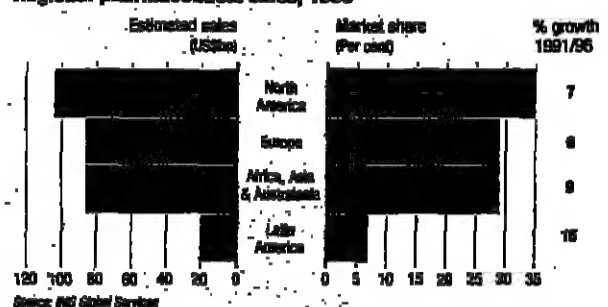
Moreover, the disease/product targets most in demand in these markets can be very different from the more developed countries: the relative sales of anti-infectives/antibiotics tend to be significantly higher in emerging markets.

Companies looking to exploit opportunities in emerging markets may therefore have to realign their product portfolios. This may be achieved by aiming a proportion of R&D spending to develop businesses which better suit the needs of their local customers.

Smart companies will need to adopt regional and local strategies which balance risk and return without unnecessarily exposing the parent company. Such strategies need to be developed and implemented in the long-term in the spirit of partnership with local governments, regulatory authorities, domestic suppliers and channels of distribution.

Jeff Devlin is a partner and Paul Hemsley is a managing consultant in Ernst & Young's Global Life Sciences Group

Regional pharmaceutical sales, 1996



INVESTMENT BANKING • by Dan Bogler

## Enjoying a sector in rude health

Banks envisage returns from specialist care for healthcare and pharmaceuticals

"Healthcare is hot," says Bob Bradway, head of Morgan Stanley's healthcare group in Europe, "and the infra-red detector is still dominated by pharmaceuticals."

Take a look at the numbers and it is hard to disagree. Even ignoring what might have been the \$15bn merger between Glaxo Wellcome and SmithKline Beecham - there have been \$40bn of takeovers and mergers in pharmaceuticals alone in the past three years. Add in the deals, flotations and financings in biotechnology, healthcare services and medical technology, and the number doubles.

In response, most investment banks worth their salt have set up or beefed up their presence in healthcare. Morgan Stanley, the clear leader in this sector, was also the first out of the starting blocks: it set up a separate healthcare department as early as 1983.

"By then it was clear that fundamental changes were sweeping the industry," says Mr Bradway, "such as the emergence of a public biotechnology sector in the US and the introduction of for-profit healthcare providers. We wanted to create a group of bankers that would stay abreast of these issues and be able to talk to managements on strategic issues."

Today, Morgan Stanley's global healthcare group numbers 50, including research analysts, and has advised on eight out of the 10 largest pharmaceutical deals.

But it no longer has the field to itself. Goldman Sachs, which started its healthcare team in 1988, has expanded it twice since and, in June 1996, boosted it to the level of a free-standing department - on a par with the bank's financial institutions and utilities practices. Art Reimers, co-head of the healthcare department worldwide, leads a group of 50 bankers centred in New York, London and across Asia.

Meanwhile, J.P. Morgan, has built up a 60-strong group since 1991, covering pharmaceuticals, biotechnology and services such as hospital groups and health maintenance organisations.

Deal volume, however, has not been the only reason for the creation of such large teams of specialists. Healthcare, unlike any other industry, is not driven only by rapid change - like, say, computing - but also by the way it is governed - like telecoms.

"This is a regulated industry," says David Deming, co-head of J.P. Morgan's global healthcare practice. "And you must understand that country by country, because that is what drives value."

**M&A Advisers: healthcare**  
Public deals more than \$100m  
Jan 93-Jul 97

| Transaction volume (\$Bn) |
|---------------------------|
| Morgan Stanley            |
| J.P. Morgan               |
| Goldman Sachs             |
| Merrill Lynch             |
| UBS                       |
| CSFB                      |
| Lehman Brothers           |
| Salomon Smith Barney      |
| Lazard Freres             |
| ING Barings               |

Source: Securities Data Company, Morgan Stanley

On top of that, just keeping up with the science is a challenge. According to Mr Reimers: "There is probably a scientific event that is significant to the industry occurring every day. That does not happen if you are making gaskets."

Lastly, of course, a look at the record (see table) shows that this sectoral approach is paying off handsomely. When it comes to strategic advice and the big deals, managements turn time and again to half a dozen top names - led by the American bulge bracket firms, even though many of the world's biggest drug companies are actually European. A good example is the creation of Novartis in 1996, where Morgan Stanley advised Sandoz and Ciba's lead adviser was J.P. Morgan, backed up by UBS.

An alternative approach still exists, of course, such as the generalists at the Lazard Houses or ING Barings. Marcus Agius, vice-chairman of Lazard Brothers in London,

stresses the importance of creating well-rounded bankers, who can negotiate and execute a deal irrespective of what industry is concerned. And that approach will continue to work where there are strong client relationships. But Lazard's presence in this sector is heavily based on the work it has done for Glaxo in the UK. And when Glaxo bid for Barings' main client Wellcome in 1995, the latter hired Morgan Stanley as well, while Goldman Sachs has quietly worked on a defence strategy for Zeneca, another UK drug company.

So what do the specialists predict for the future? Consolidation will continue. On that, everyone is agreed. Even Glaxo SmithKline would have had only 7 per cent of the world drug market. And, whereas the first round of mergers in the mid-1990s was driven by a need to secure global distribution networks, according to Mr Deming, the next wave will come as a result of fundamental changes in research technologies, which are raising the productivity but also the costs of R&D.

And most of those deals will continue to be in the form of friendly, all-share mergers inside a single market. According to Mr Reimers, launching a cash bid is just too expensive given the vast size of the big pharma companies, while stock deals are very difficult to pull off across borders.

Moreover, biotechnology and healthcare service companies are also under increasing pressure to combine to cut costs and gain critical mass.

But there are other trends as well. Mr Bradway points to the emergence of a European biotechnology sector and a rapid increase in outsourcing by big pharma to specialists, such as Quintiles, a contract research organisation. As these sectors grow, they will require investment banking services, from help with going public to advice on strategy, acquisitions and alliances.

The failure of Glaxo and SmithKline to merge was a setback for the companies, their advisers and the industry as a whole. But the healthcare bankers will not be short of work.

# Explore

## a new world of high technology...

### in Québec

**Outstanding business location factors:**

- A stable, highly educated, cost-effective workforce
- Part of a market of 390 million people through NAFTA

**Québec's first-rate high-tech environment:**

- A technological hub of knowledge-based industries such as aerospace, biotechnology, telecommunications and multimedia
- The industrialized world's best R&D tax treatment

"Let us help you navigate the many opportunities Québec has to offer as your next business location."

Louis P. Granger  
Director, Foreign Investment Service

## Québec

Technology prospers in Québec

Tel: (514) 982-3011  
Fax: (514) 873-4503  
invest-quebec@mcsst.gouv.qc.ca  
<http://www.mcsst.gouv.qc.ca/invest-quebec>



## 4 PHARMACEUTICALS

JAPAN • by Martin Reeves

# Finally stemming the bleeding

Japan is waking up to healthcare cost containment but remains an attractive market

Japan's pharmaceutical market is the second largest after the US, accounting for roughly 20 per cent of world demand. Until recently it has provided a favourable environment for Japanese and foreign players alike. However, changes in the healthcare system and the economy will make life more difficult for smaller companies and could trigger a wave of mergers and acquisitions.

Healthcare cost containment has come to Japan, perhaps last among all developed economies. Until recently, few restrictions were placed on either access to doctors and hospitals or the use of drugs.

The drug pricing and reimbursement system has had a profound impact on the Japanese market and the industry.

New drug prices are determined by comparison with existing drugs. The price was allowed to increase up to a threshold, with the difference in excess of this so-called "r zone" triggering biannual revisions in the official price.

This created a powerful incentive for over-prescription, with *yakkasa* (the difference between official and market prices) being an important source of income for doctors. Indeed, in 1996 *yakkasa* amounted to 1.5 trillion yen or, roughly, 5m yen for every doctor in Japan.

Compared with other large and established markets, prices have been both relatively high and also undifferentiated between highly innovative compounds and mere incremental improvements in the quality of a drug.

As a result, Japan has been able to support a large population of relatively small pharmaceutical companies, including around 100 which claim to be research-based.

As the market has grown steadily, Japanese manufacturers have been able to increase their profitability. Foreign companies have also done reasonably well. Compared with other sectors of the economy, pharmaceuticals has been relatively open and foreign companies have a 26 per cent share of the market directly and around 40 per cent if drugs licensed to local companies are taken into account.

The environment that has allowed this is changing in three ways: slower economic growth, a rapidly ageing population and the international harmonisation of technical regulations.

The fastest ageing population among developed countries and a declining working age population have driven the health insurance system into deficit and have precipitated a belated but intense focus on cost containment.

Some measures have already been introduced. Patient co-payments (where

patients contribute to the cost of their treatment) have been increased to a uniform 20 per cent.

As in other countries, the government has focused on containing cost with the pharmaceutical industry as the main target. Price revisions are made annually and the "r zone" has been reduced from 15 per cent in 1992 to 10 per cent, with a smaller zone of 8 per cent being applied to long-listed drugs and a proposal to reduce these further to 5 per cent and 2 per cent respectively.

A discount is effectively applied in setting the prices of drugs which are judged not to be innovative.

A "flat sum" was introduced on a voluntary basis for elderly in-patient care, capping the total daily cost per patient. More controversial has been the adjustment of prices of drugs which have significantly exceeded their sales forecasts or had usage extended beyond initial indications, such as

Sankyo's high selling cholesterol-lowering agent Mevalotin.

Of more concern are two measures which are slated for introduction around 2000. One is the extension of the flat sum system to all chronic diseases, which is likely to result in markedly reduced consumption of non-essential drugs, lower market prices and the substitution of lower-priced products, including generics.

The other is the introduction of reference pricing, broadly modelled on the German system in which drugs are paid for by the government at a single price for each medical application. This would also reduce consumption significantly by eliminating the economic incentive to overprescribe and depress the prices of leading brands.

Precedents in both Germany and Japan suggest that the impact will vary greatly, with companies focused on simple infusions or antibiotics, or those with

relatively undifferentiated products, being hit most severely.

The second major driver of change is the international harmonisation of technical regulations. More stringent procedures for pharmaceuticals companies and clinical investigators for clinical trials were implemented in April, 1997.

Written informed consent from volunteers is now compulsory for all clinical trials. This will mean higher costs, fewer participating sites, lower patient recruitment rates and longer development time scales. The imminent abolition of the regulation requiring that clinical trials be performed in Japan on Japanese subjects will open the possibility of using international trials data.

Japan seems vulnerable to these changes with only two companies, Takeda and Sankyo, in the top 20 companies globally and only two large companies, Yamanouchi and Fujisawa, with sales of more than 20 per cent

abroad. Some, including Sankyo, Fujisawa and Yamanouchi, have acquired small companies in Europe and in the US but they have been relatively unsuccessful in using them to boost their penetration of foreign markets.

While the new drug output of the Japanese industry has increased dramatically, such that it now accounts for around one third of new compounds globally, the proportion of these which are therapeutically novel is significantly lower than major competitor countries.

Analysis of the relationship between stock market, operational performance and scale in Japan shows that the minimum efficient scale in both R&D and sales is already somewhere near \$1bn sales, corresponding to the top 15 companies.

It is likely that the Japanese industry will see significant restructuring and consolidation in the next few years, including the possibility of large inward acquisitions.

While the market environment may be deteriorating, Japan is still regarded by many foreign companies as a large and profitable market in which they remain under-represented.

Significantly, 10 international companies have dissolved joint ventures with Japanese pharmaceutical companies since 1990, and have built their own sales and development organisations.

A number of changes are creating a more favourable environment.

First, anticipated environmental changes will hit some Japanese companies hard with some already showing significant deterioration in stock market and operational performance.

Second, asset prices have fallen with pharmaceutical shares some 25 per cent below 1989 levels.

Third, the stable cross-shareholdings between companies which have hitherto protected Japanese companies from acquisition have begun to unravel, as insurance companies and banks

are forced to question the low-dividend yields on these substantial investments and address their own deteriorating financial positions.

Fourth, a minority of industry leaders have begun to seriously consider alliances with international companies.

Finally, the feasibility of drastic restructuring will increase if the current economic recession is prolonged. The collapse of Yamaichi Securities and recent salary reductions and restructuring of management boards by some banks are already providing powerful precedents.

There are several areas where costs will be cut. At 55,000, the number of medical representatives in Japanese pharmaceutical companies is high by international standards. Some hospitals

have already implemented restrictions on visits by salesmen.

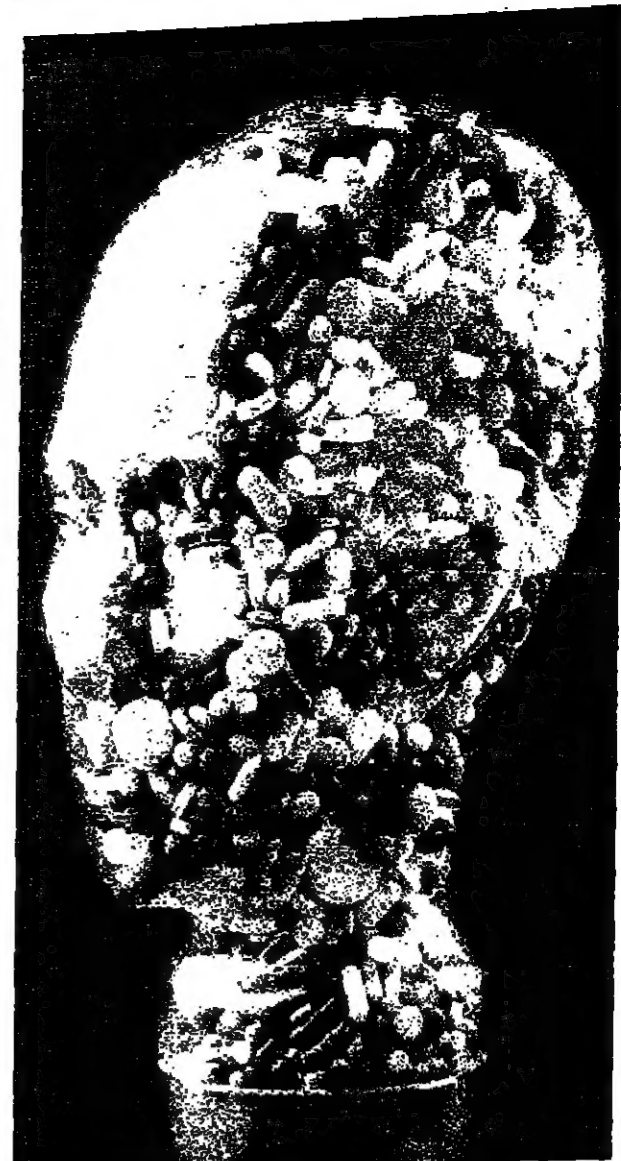
The number of wholesalers is also extremely high at some 280, although this is declining fast through mergers and acquisitions.

Japan will soon see the emergence of clear winners and losers. Losers will include most wholesalers, many of the smaller Japanese pharmaceutical companies and foreign companies who fail to move decisively to build local critical mass.

Winners will include leading foreign companies which have already attained critical mass, a few more which may attain it through bold M&A moves, large wholesalers which attain national coverage and rationalise logistical operations, and no more than a handful of the larger Japanese companies.



Drug culture: future generations of Japanese will find prescription drugs more difficult to come by



Over dose: changes will reduce over-prescription

FT

FINANCIAL TIMES  
Healthcare

...AN INVALUABLE SOURCE OF BUSINESS  
INTELLIGENCE AND INFORMATION ON THE GLOBAL  
PHARMACEUTICAL, HEALTHCARE AND BIOTECHNOLOGY MARKETS

At FT Healthcare we are committed to serving the international information needs of senior management. FT Healthcare publish a wide range of management reports, newsletters, directories, CD-ROMs, journals and books which have been specifically developed to deliver business information and intelligence at the right level, whatever your particular information requirements.

Below are listed a selection of our publications. For further details please tick the appropriate box and complete your details on the form below:

- ◆ Pharmaceutical Business News (incorporating Biotechnology Business News) ☐
- ◆ OTC Business News ☐
- ◆ Medical Device Business News ☐
- ◆ Biotechnology and Pharmaceutical Companies Database CD-ROM 1997/98 ☐
- ◆ Biotechnology International Yearbook ☐
- ◆ Pharmaceutical International Yearbook ☐
- ◆ Who's Who In Biotechnology ☐
- ◆ Management reports - Complete listing of titles ☐
- ◆ Complete product listing ☐

POST OR FAX THIS AD TO:

FT Healthcare, Maple House, 149 Tottenham Court Road, London, W1P 9LL  
FAX +44 (0) 171 896 2449, TEL +44 (0) 171 896 2415  
cynthiam@pearson-pro.com www.fthealthcare.com

Name \_\_\_\_\_ Title \_\_\_\_\_ Tel no. \_\_\_\_\_  
Position \_\_\_\_\_ Fax no. \_\_\_\_\_  
Organisation \_\_\_\_\_ E-mail \_\_\_\_\_  
Address \_\_\_\_\_  
Postcode \_\_\_\_\_

21972A

## Working for a Healthier Future



Pfizer is a research-based health care company with global operations.

Pfizer Limited, at Sandwich in Kent, employs some 3500 people, most of whom are involved in the research, development and manufacture of medicines for the treatment of disease in humans and animals.

**Pfizer** Bringing Science to Life





R&amp;D • by Clive Cookson

## Unions improving productivity

Collaboration with new disciplines is expected to point the way forward

Success in pharmaceuticals, more than in any other global industry, depends directly on science.

While high technology sectors, such as electronics and aerospace, are also science-based, other factors, such as manufacturing and product design, play a more important role there.

In pharmaceuticals, a new chemical that offers significantly improved treatment for an important disease is bound to be commercially successful, if its developer can demonstrate through clinical trials that it works safely and effectively.

Of course, it has to be made with proper quality control and marketed effectively but these issues tend to be more important for, say, computers than for drugs.

Not surprisingly, therefore, drug companies devote vast resources to research and development. Their R&D spending is, typically, 15 per cent of sales revenues.

The UK-based Centre for Medicines Research International (CMRI) estimates that the global pharmaceutical industry spent \$32.2bn on R&D in 1995 and \$35.4bn in 1996. The rapid increase in R&D spending has not yet been reflected in the flow of drugs reaching the market. Figures from CMRI show that the number of new molecular entities – in other words, genuinely new drugs rather than reformulations of existing products – first launched in 1996 was the lowest for at least a decade (see chart). The decline can be attributed

mainly to a sharp fall in activity by Japanese companies.

On the other hand, the CMRI data show an encouraging fall in the time taken to develop new drugs – evidence that the industry's efforts to speed up the R&D process are beginning to pay off at last. The average development time from discovery to first marketing was 10.1 years in 1996, the lowest since 1980.

Looking ahead, the industry expects the trend to shorter development times to continue, as a combination of improved management and new technology improves R&D efficiency. At the same time, it is counting on a rapid reversal in the declining number of new drugs launched.

Large pharmaceutical companies, which have managed to launch drugs at an average rate of about one a year, are now promising two or three innovative products a year. Glaxo Wellcome of the UK put 18 new chemical entities into the first 'exploratory' stage of development in 1997, says James Nield, R&D director, compared with just six by Glaxo and

Wellcome together before their merger in 1994.

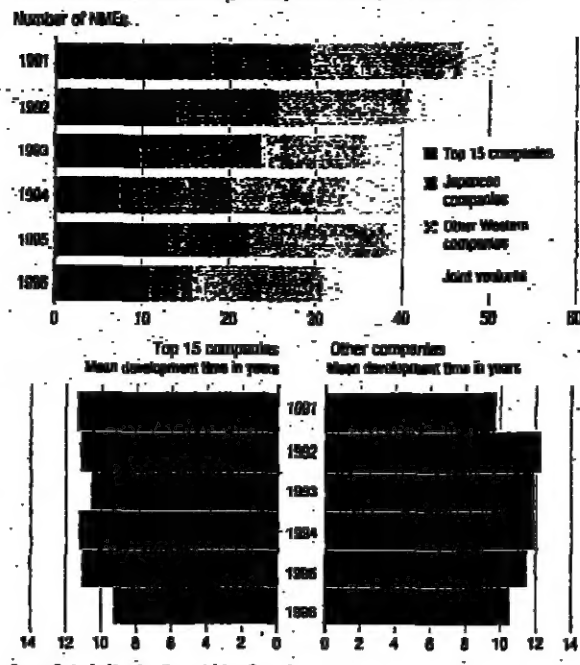
At the same time as they streamline their in-house R&D operations, large companies are extending their network of alliances with the biotechnology companies that could give them a decisive scientific edge in a particular field. And they are willing to pay handsomely for productive R&D collaborations.

Earlier this month, for example, Glaxo Wellcome signed a wide-ranging agreement in the field of DNA vaccines with PowderJect Pharmaceuticals, a UK biotechnology company. The deal could bring PowderJect more than \$300m in licence, option and milestone payments over the next five to 10 years.

And last month Roche of Switzerland announced an R&D agreement that could bring DeCode Genetics, Iceland's first biotech company, \$200m over five years. It is in human genomics, one of the hottest fields of research, in which scientists are discovering how genes work together to cause disease.

The contribution of biotech to pharmaceuticals is

New molecular entities (NMEs) first launched worldwide



Source: Centre for Medicines Research International

growing steadily. The percentage of new drugs categorised as biotechnology products has risen from about 5 per cent to 15 per cent during the 1990s. But Pfizer, one of the most successful US pharmaceutical groups, says that more than 90 per cent of early stage 'discovery' research projects are based on biotechnology.

Four related technologies are having a huge impact on pharmaceutical R&D.

● **Combinatorial chemistry** is the most exciting new chemical research technique of the 1990s. It miniaturises and automates chemical synthesis, creating a huge diversity of compounds by combining a fixed stock of molecular building blocks at random through a planned series of reactions. Gigantic chemical 'libraries' can be created from promising compounds for screening for biological activity.

● **Genomics** studies the way genes work together with environmental factors to determine human development, health and sickness. The Human Genome Project, a loosely co-ordinated international endeavour to work out the structure and sequence of the estimated 80,000 human genes, is expected to be finished by

2005. Scientists are already trying to relate individual gene mutations to the progress of disease and to tailor drug treatments accordingly – a process known as pharmacogenomics.

● **High-throughput screening** is a robotic technique for testing drug candidates (derived from combinatorial chemistry) for activity against biological targets (identified by genomics) as quickly as possible. The next generation of 'ultra-high-throughput' screening systems, developed by companies such as Evotec of Germany, will be able to carry out 200,000 tests per day.

● **Bio-informatics** uses computers to make sense of the vast volumes of data pouring out of biomedical research. For example, the European Bio-Informatics Institute in Cambridge is adding new DNA sequences (partial or whole genes) to its public database at a rate of one per minute. Not surprisingly, specialists in bio-informatics are in extremely short supply – and very highly paid. Even so, SmithKline Beecham has managed to build up a 70-strong bio-informatics group almost from scratch over the past four years.

COSMECEUTICALS AND NUTRACEUTICALS • by Victoria Ward

## Acquiring a taste for looking good

Consumer insight is needed if the pharmaceutical industry is to make advances

As biotechnological research gathers greater understanding of nutrition and ageing, its discoveries are being used in the food and cosmetics industries. The results are called cosmeceuticals and nutraceuticals and represent one of the largest untapped markets for the fruits of medical research.

Pharmaceutical companies venturing into the areas of nutraceuticals or cosmeceuticals are entering an alien arena; exciting buzz-words that beckon potential players to jump on the bandwagon belie the fact that this is a different game from that which the traditional pharmaceutical companies are used to playing and not one which they are well equipped to win.

Both terms have the ring of faddishness about them, but neither is new. 'Nutraceuticals' was first coined 10 years ago by Dr Stephen L. De Felice, Chairman of the Foundation for Innovation in Medicine, with 'cosmeceuticals' having a heritage which dates back to 1961, when it was defined by Raymond Reed, founding member of the Society of Cosmetic Chemists.

However, there is still confusion over the terms. A nutraceutical is defined by Dr De Felice as a food, or components of food, which provide health benefits, including the prevention or treatment of diseases, and includes only ingredients and products, the effects of which have been clinically proven.

However, a sweeping survey of any supermarket shelf would reveal products promoted as aiding 'well-being'

which do not make specific medical claims and are not backed by clinical studies, yet would generally be classified in the category 'nutraceuticals'.

This lack of clarity is reflected in assessments of market size, which range in value for nutraceuticals from \$30bn world-wide by the year 2001 (Freedonia), to already being worth \$250bn in the US alone (De Felice). But one thing that everyone does seem to agree on is the potential.

Nutraceuticals are set to grow faster than pharmaceuticals, with 8.3 per cent and 6.2 per cent annual growth respectively according to the report, *Nutraceuticals to 2001*, the Freedonia Group (June 1, 1997).

In the US, the cosmeceutical market is expected to grow at 15 per cent per annum – with the retail cosmeceutical segment outstripping over the counter and prescription cosmeceutical segments with 30 per cent, 9.5 per cent and 8 per cent annual growth respectively.

One clear driver for this growth – in both areas – is the onset of middle age among the health and youth-conscious baby boomers; more than half the US population will fall into the 35-64 age bracket by 2000.

Add to this the increasing spending power of women, the greater awareness of medicine and its alternatives, the shift towards 'natural is good', and the cost advantages in prevention over cure and there is a convincing case for an explosive market in products which promote well-being, prevent disease and postpone the signs of ageing.

It looks like a logical step for pharmaceutical companies to be taking. However, they are not alone; the clear consumer pull is an invitation for myriad competitors to join the fray.

Food and cosmetics companies are looking to invigorate often saturated markets with scientific propositions; entrepreneurial companies want to exploit a promising market; and pharmaceutical companies are looking for new applications for their ethical expertise.

But do pharmaceutical companies have the capabilities that will be required to succeed in these areas? It is clear that success in either of these markets demands consumer insight. On this front, the pharmaceutical industry, which has based its success on medical insight, is a poor contender when squaring up against companies with a retail heritage. They also demand consumer-friendly presentations and pharmaceutical companies still lack technical capability in this area. Tablets and capsules, for example, may be effective ways of delivering active substances to the body, but they're not exactly appetising, nor are they perceived as 'natural' or 'healthy'.

Importantly, pharmaceutical companies also lag behind the major food and cosmetics players in their ability to market and distribute to consumers. This is key not only from a logistical and demand point of view, but also from a regulatory point of view.

Take cosmeceuticals. The FDA, for example, essentially takes the position that it is the claims being made for the products – whether through labelling or advertising – that determine its intended use and hence its legal status as either a cosmetic or a drug.

The regulatory restrictions are much more costly for products classified as drugs. The conservative, regulatory-pharmaceutical companies have to compete against

Continued on Page 6



Side effects: the industry is as dependent on R&D as ever



Growing in health  
with Solvay all the way

Health is a universal concern. Around the world, families and individuals seek to grow in a balanced, sustained way. The Solvay Pharmaceuticals companies support them in this quest, with a range of therapies to help people in each stage of life.

Like any other family, the Solvay family of companies invests heavily in its own development especially in research.

Our recipe for healthy growth? The same as for people everywhere. Look first to our own resources. But go beyond these resources by working with persons and groups who can add to your capabilities. Solvay Pharmaceuticals follows this recipe in one way by combining the innovation and scientific ability of its laboratory personnel with the compound screening technology of biotechnology companies. This effort drastically accelerates the pace of invention.

Healthy growth for Solvay Pharmaceuticals means therapies for psychiatry, gastroenterology, gynecology and cardiology. It also means finding new applications for existing therapies.

This is the dynamic of progress, the promise of health for the future. The promise of Solvay.

A promise reflecting our passion for progress.



a Passion for Progress®

A group of Chemical and Pharmaceutical companies.

<http://www.solvay.com>



In Perfect Balance

According to the ancient Chinese philosophy of yin and yang, the universe is composed of opposing but interdependent forces. Interestingly, this philosophy resembles the concept of homeostasis, the natural balance that occurs within living organisms, including the harmony between antagonists and agonists that regulate vital functions. Thus, an important factor in the search for new medicines is developing compounds that work together with the body's own restorative and regenerative abilities.

■ To lead healthy lives, we must seek balance with nature, with society, and within ourselves. As a leading pharmaceutical company, Takeda is striving to help people attain this balance.

**TAKEDA**  
Takeda Chemical Industries, Ltd.

Head Office: 1-1, Doshomachi 4-chome, Chuo-ku, Osaka 540-8645, Japan  
Tokyo Head Office: 12-10, Nihonbashi 2-chome, Chuo-ku, Tokyo 103-8668, Japan



## 6 PHARMACEUTICALS

US • by Nicholas Timmins

# Preparing a new mixture

Managed care has changed the face of the American health care system

Managed care, currently the American public's least loved element of the US health care system, has had mixed and, in some ways, unexpected effects on the country's pharmaceutical industry.

A system of running health care in which health plan administrators and doctors attempt to ensure that only treatments of proven efficacy and cost effectiveness are offered to patients, managed care has spread far faster and further in the US than anyone predicted.

Now, at least 60 per cent of Americans, and three-quarters of those covered by private employers, are under managed care, and the numbers are still rising.

The pharmaceutical industry was initially fearful, believing the drive to switch patients to lower cost, generic, drugs in place of

brand name products would hit sales, profits and margins.

Today the picture is more mixed. Managed care does indeed appear, at least for the time being, to have capped what, until four years ago, had been the US' ever-escalating health care bill. By 1992, that had reached 13.6 per cent of the country's gross domestic product, easily the highest proportion of spending in the world.

Since then, although expenditure has been rising, the share of GDP spent on health in America's booming economy has remained static.

Drug costs, however, have not. In 1996, according to federal government figures, they rose 9.2 per cent. A similar, possibly larger increase, is thought to have taken place last year.

Little of this, however, is due to price rises. Most by far is due to a greater volume of drugs being sold. Price competition has helped drive the state of drug company mergers, but the increasing use by pharma-

ceutical companies of economic data to demonstrate that drugs are cost effective, and particularly new drugs not yet out of patent, has helped push volumes and therefore overall costs up.

Raymond Gilmartin, chairman of Merck, argues that better management of disease through the appropriate use of pharmaceuticals is helping cut costs - reducing hospital stays and expensive high-tech interventions, producing "better patient care and better health outcomes". Spending more on pharmaceuticals, or at least the right pharmaceuticals, is a good investment he argues, helping the health care industry start to make the transition "from managing costs to managing health".

Others are less sure that the picture is that clear. Last year few health maintenance organisations made a profit, their premiums squeezed by employers exploiting overcapacity in the health care industry to strike hard bargains for cover. Jean Gagnon, director of health economics policy with Hoechst



American revolution: the industry has found it has less to fear than to gain from the move to managed care

Marion Roussel, says neither they nor the employers who purchase the services of health plans "are convinced that drug costs should be going up, certainly across the health care system".

For some products and diseases, the evidence that increased prescribing can improve health and lower costs is clear, he says but in many areas purchasers "are not yet fully convinced". The industry has to make a better case that increased prescribing pays. "For the average managed care organisation, the connection is not clear. If you increase your drug budget, does it really mean that there are savings in hospitalisation and other costs?"

It is still uncertain, he says, which way purchasers will jump this year, particularly amid signs that after years of squeeze health maintenance organisations are attempting to increase premiums to restore their financial health. Pressure to further restrict formularies - the drugs that doctors can prescribe - and to introduce higher charges on patients for drugs may result.

The picture is further complicated by the move some of the big pharmaceutical companies have made into pharmacy benefit management. Since 1993, Merck, Smith-Kline Beecham and Eli Lilly have all bought up pharmacy benefit managers (PBMs) who had entered the managed care game by offering health planners a variety of techniques for getting doctors to choose less expensive pharmaceuticals and to persuade the companies to underwrite on price.

After attacking such an approach, Merck in 1993 bought up Medco, the most aggressive of the PBMs, a move swiftly followed by SmithKline and Lilly. To date, however, only Merck has shown a clear benefit from the strategy, with a

higher proportion of the sales handled by Medco coming from Merck's product range than in the past.

The PBMs are also seen by some to face a conflict between seeking rebates from manufacturers for selling more of their drugs while promising control of pharmaceutical costs to managed care organisations - a tension which again raises the question of whether higher prescribing is truly cost effective.

As increasing competition in the American health care market is forcing greater integration, both horizontally and vertically, fewer large firms in both the purchasing and delivery of health care are emerging.

No-one has followed Zeneca which in 1995 bought

into the chain of 11 cancer clinics run by Salick Health Care and last year took over full management of them - causing critics to charge that there was a conflict of interest over prescribing when a company which is the second largest manufacturer of anti-cancer drugs becomes directly involved in patient care.

The full take-over followed a falling out between Zeneca and Dr Bernard Salick, the chain's founder, who is launching a new range of centres specialising in AIDS and cancer.

Dr Salick is in negotiation with a number of pharmaceutical companies over potential partnerships based on the argument that the economic data and information from drug trials which

pharmaceutical companies can gain from direct involvement in patient care will provide increasingly critical market information on the cost of treating particular diseases.

Worries that drug companies directly owning patient care facilities will lead to unprincipled pressure on doctors to prescribe that company's products can be addressed by having true "Chinese walls" between the two sides of such a business, he argues.

Whether that happens, the continued drive for efficiency and value is still likely to mean over the next decade "partnerships between the various members of the health care system that were unheard of before," Dr Gagnon predicts.

## A taste for looking good

From Page 5  
more sassy cosmetics companies which are comfortable in pushing the boundaries with what they claim and telling the consumers what they want to hear.

Another issue that pharmaceutical companies are finding it hard to come to terms with is that of patent protection or, rather, lack of it for much of both markets. Natural products, for example, cannot be patented, so companies have to look for other means of gaining a competitive advantage or proprietary position, perhaps through innovative packaging or delivery systems.

Added to this is the fact that much of the consumer

focus driving this market is on prevention rather than cure and prevention is distinctly harder to prove - and therefore claim. There are still relatively few supplements, for example, which have been clinically demonstrated to prevent a condition, while the vast majority still only offer some promise of benefit.

This is not the game that pharmaceutical companies know and are comfortable playing. Their heritage is one of medical, not consumer insight, where large R&D spends have been rewarded by patent protection. Reputations and sales have been built on proving efficacy and clearly promoting

that efficacy to the medical community.

Consumer insight and marketing will certainly grow as more pharmaceutical companies gain OTC experience, but the big food and cosmetics firms have a lead measured in decades. A few companies, such as Johnson & Johnson, which straddle the health/consumer divide, are well placed to exploit the new developments for most of the large pharmaceutical organisations, however, nutraceuticals and cosmeceuticals will remain a niche interest.

Vicoria Ward is a senior consultant, Gemini Consulting, The Life Sciences Group, Cap Gemini Tel: 0171-940 3391



"Science, Service, Solutions" is a digitally created mural by artist Kenneth Gore, commissioned by Covance, depicting the drug development process.

## We're here to take you further.

Explore your options with us.

Use Covance skills and resources to manage drug development demands. Shape your best strategic path. Covance provides just what you need, when you need it.

Because you don't need any solution, you need the right solution.

**COVANCE**  
THE DEVELOPMENT SERVICES COMPANY

Shaping Solutions

THE AMERICAS  
+1 866 COVANCE  
(800 555 5555)

EUROPE  
+44 (0) 1425 600888

ASIA  
+65 7747223

PACIFIC  
+61 2 9695 1511

E-mail  
covance@vsnv.com

Visit the Covance Web Site  
www.covance.com

Covance is an independent, publicly held company with headquarters in Princeton, New Jersey, USA. Covance is the marketing name for Covance Inc. and its subsidiaries around the world. © COPYRIGHT 1998, COVANCE INC.

EUROPE • by Graham Bowley

## Problems of parallels

Companies fear that cheap drugs will stand in the way of the single market

The thorny problem of so-called "parallel" imports has emerged as one of the most important issues facing the European pharmaceutical industry. Negotiations in Frankfurt at the end of last year appeared to mark some progress in resolving differences between European governments and pharmaceutical companies on the issue but the planned European single currency, which is due to be introduced in January next year, could complicate the debate.

Parallel trade in pharmaceuticals is a consequence of the European single market. In the true spirit of the single market, authorities in Brussels have been keen to support the free movement of drugs across the whole of the union.

But this sits uncomfortably with government regulation of drugs prices which still exist in some nations. In countries such as Portugal and Spain, governments intervene in the market in order to keep prices down so they are affordable for poorer consumers.

The consequence of this has been that private dealers have discovered a lucrative trade reselling these cheap goods bought in low-price regions to consumers in countries where markets are less regulated and prices are higher, such as the UK.

And these traders have been backed by the European authorities: in a landmark ruling, the European Court of Justice judged more than a year ago that two British companies could resell Spanish medicines in the UK; the court decided that the principle of free movement of drugs took precedence over business fears that northern markets would be flooded by cheap medicines.

On the face of it, this "parallel" trade in cheap medicines would seem a boon to consumers in countries such as the UK, who would otherwise have to pay more for their medicines.

But the world's big pharmaceutical companies complain that the cross-border trade in cheap drugs is actually, in the long-run, to the disadvantage of consumers. They argue that parallel trade stands in the way of a truly competitive single market and endangers crucial research and development.

The drugs companies argue that cheap imports undermine their business in

high-price countries, which is where they do most of their research and development. They insist that without healthy profit margins, they cannot afford expensive research and that patients will suffer because, ultimately, they are deprived of the best drugs.

What the negotiations in Frankfurt at the end of last year showed was that the companies' worries have begun to find a more sympathetic ear among governments. Amid fears about declining competitiveness and falling research, European governments recognise an increasing need for action to bolster Europe's pharmaceutical industry.

The result was that in contrast to the heated and largely fruitless talks in 1996 which finished in gridlock, last year's negotiations ended with a framework solution being hammered out which appeared to find favour with both government and industry officials.

According to the proposals, drug price controls would be lifted in European markets in three stages.

The proposed solution foresees a three-stage lifting of government drug price controls so that eventually all prices would be set competitively. Companies hoped that this would eliminate the incentives for private traders to move pharmaceuticals across borders within the European Union.

Representatives of the pharmaceutical industry and national government and European officials are

According to the three-stage plan: first, prices of over-the-counter, or self-medication drugs would be allowed to be set competitively, then generic medicines and, finally, the price of patent-protected drugs would be freed.

The first step is the least controversial since medicine prices in Europe's big over-the-counter drugs market are, to a large degree, determined competitively. Full competition would, therefore, be relatively easy to introduce. There was also agreement that the second stage, affecting generic drugs, also looked within reach.

However, the third-stage, affecting patent-protected medicines, remains controversial because of the fear that the lack of competing products in this sector could lead to sharp price rises once prices are freed to move.

Companies think that one way out of this impasse would be to accept that price controls should remain in the case of patented goods but at the same time imposing a block on cross-border trade of the medicines. However, European officials and some industrialists doubt that such a move would be legal, again because it would go against the very fabric of the single market.

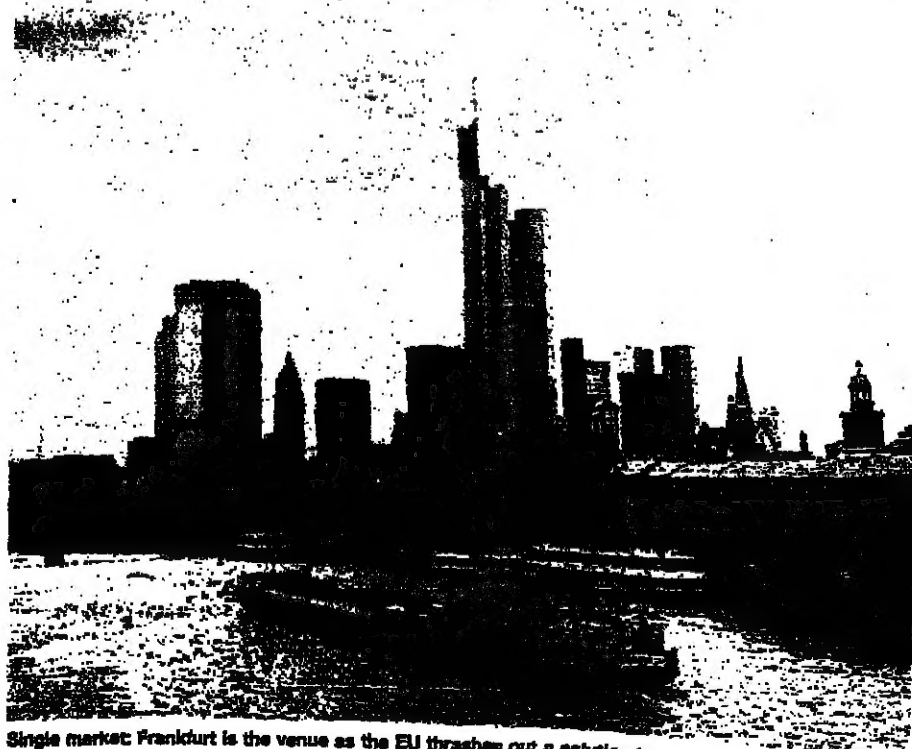
Representatives of the pharmaceutical industry and national government and European officials are

due to meet in Frankfurt again later this year to revisit this heated issue.

Other subjects affecting drugs companies are also due to be on the agenda: they are to discuss electronic commerce, a growing trend which could make national regulations irrelevant; and they are likely to talk about the treatment of new EU members from eastern Europe. The industry may argue that barriers to trade should be erected until these nations have developed proper patent laws.

But perhaps the most important subject will be the European single currency, the euro. It is not yet clear what affect the euro will have on companies' pricing policies. By removing exchange rates between countries which participate in the monetary union, the euro is expected by some to enhance the transparency of the European pharmaceutical industry. This could add to competitive pressures, and make it more difficult for companies to charge different prices in different countries.

According to Cap Gemini, the consultancy: "The price visibility will increase, and the margin at which parallel trade can take place will be reduced well below the currently accepted level of 20 per cent. Distributors working in just one country today may decide to export tomorrow."



Single market: Frankfurt is the venue as the EU thrashes out a solution to parallel pricing

Richard Brown